Supreme Court, U.S.
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In The

Supreme Court of the United States

MEREDITH CRANMER,

Petitioner,

v.

TUMBLEBUS INCORPORATED,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Sixth Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

I. When as part of the sale of a business opportunity a trademark owner sells commercial equipment emblazoned with the owner's mark, does the trademark "first sale," also known as "exhaustion," doctrine allow only the resale by another of the genuine trademarked products, while categorically disallowing public display of the trademark emblazoned equipment when used by the purchaser while rendering services in association with the purchased business?

II. When as part of the sale of a business opportunity a trademark owner sells the right to use a mark as part of the purchaser's trade name, and notwithstanding the "first sale," also known as "exhaustion," doctrine, may the trademark owner unilaterally reach beyond the sale and later rescind the sale of the right to use the mark in a trade name even though the seller did not retain any contractual right to do so?

III. Is a horizontal geographic territorial market division agreement which would normally constitute a *per se* antitrust violation nonetheless enforceable if the contract parties horizontally agree to such a market division seeking to avoid competition under the same or similar trademarks or service marks?

IV. Does the widespread nationwide granting to others by a trademark owner of rights to use a trademark without retention of the required quality control, also known as "naked licensing," constitute abandonment "against the world" of any trademark rights, or only an abandonment in geographically distinct markets?

PARTIES TO THE PROCEEDINGS

In addition to the parties listed in the caption, the President of Plaintiff Tumblebus Incorporated was joined in the trial court proceeding as an Involuntary Plaintiff, namely, the following:

Brenda Scharlow

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OPINIONS AND ORDERS BELOW

The January 13, 2005 opinion of the United States Court of Appeals for the Sixth Circuit is reprinted in the Appendix to this petition at App.1, and is reported at 399 F.3d 754. The denial by the circuit court of a Petition for Rehearing and Suggestion for Rehearing En Banc is reprinted at App.49.

The transcript of the unreported oral Findings of Fact and Conclusions of Law issued by the United States District Court for the Western District of Kentucky on December 22, 2003 is reprinted at App.32. The Preliminary Injunction Order entered by the District Court on January 16, 2004 is reprinted at App.27.

JURISDICTION

The Judgment of the United States Court of Appeals for the Sixth Circuit was entered on January 13, 2005. On March 15, 2005, the circuit court denied a Petition for Rehearing and Suggestion for Rehearing En Banc. Petitioner invokes the jurisdiction of this court pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The statutory provisions involved in this Petition are the following:

1. The definition of an "abandoned" mark contained in Lanham Act Section 45, 15 U.S.C. § 1127, which provides, in the pertinent part:

A mark shall be deemed to be "abandoned" when either of the following occurs:

* * *

(2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark.

2. 15 U.S.C. § 1 which provides, in pertinent part:

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal.

STATEMENT OF THE CASE

This petition seeks review of a preliminary injunction issued by the district court, affirmed in part by the circuit court. The circuit court's jurisdiction was based upon 28 U.S.C. § 1292(a)(1).

Tumblebus Incorporated (hereafter "TBI") is an Indiana corporation, operating out of the metropolitan Louisville portion of southern Indiana, just across the Ohio River from Louisville. It sells business opportunities, namely used school buses which have been retrofitted through the removal of the passenger benches and placement of tumbling mats and exercise equipment in the passenger area. The purchasers of these opportunities use the buses in association with the independent business of conducting tumbling/exercise classes at day care centers

and other events such as birthday parties. TBI has sold nearly 250 of these business opportunities and as of the time of the preliminary injunction hearing below, TBI was receiving about $37,000 in exchange for the sale of each such business opportunity. Painted in large print on the sides of the buses sold by TBI is the word TUMBLEBUS. Photographs of tumblebuses operated by a couple of TBI's customers may be found on the Internet at http://www.tumblebusatlanta.com/ and http://www.tumblebusjungle.com/.

Petitioner Meredith Cranmer (hereafter "Cranmer") purchased an existing independent tumblebus business from Tara Pate who had earlier purchased the business opportunity from TBI. Pate never altered the appearance of the tumblebus she acquired from TBI, nor did Cranmer until ordered by the district court to do so.

Each purchaser of these business opportunities acquires the right to utilize all of the Tumblebus trademarks, as well as stock tumblebus advertising prepared on behalf of TBI. (App.56, 57, 62 & 63). Further, expressly included with the purchase of these businesses is acquisition of the right to use the word "Tumblebus" in the purchaser's business name. (App.57 & 62).

When Cramer's predecessor Tara Pate was operating the tumblebus business she acquired from TBI, she utilized the tumblebus marks, including the tumblebus stock advertising, and adopted and used the "Tumblebus" word in her business name. (App.57 & 68).

As acknowledged by TBI's President, Brenda Scharlow, TBI expressly agrees that each purchaser of a tumblebus business has the unfettered right to sell the business to another; the successors may use the tumblebus marks and stock advertising materials; and the successors

may also utilize the "Tumblebus" word in their name (App.62 & 68).

When TBI sells a tumblebus business, it provides the purchaser some stock lesson plans and training, review of an operations manual and a training manual and some marketing suggestions. (App.53, 54 & 63). Tumblebus does not require successors to receive training from TBI, rather merely assumes that when reselling the business, the operator assists its successor in learning to operate the business. (App.63 & 64). Indeed, when Pate sold her tumblebus business to Cranmer, she did so train Cranmer. (App.62-65).

Following the upfront training offered by TBI to the initial purchasers, TBI does nothing to control the quality of services rendered by its purchasers and their successors under the "Tumblebus" name. (App.52-58 & 65). Indeed, the very reason TBI's business model is outright sell of these business opportunities rather than franchising is because TBI's owner has neither the time nor interest in controlling the operations of the purchasers and their successors. (App.3, 55 & 56).

Often in association with TBI's sale of a tumblebus business opportunity, the parties contemplate a "target market" where the purchaser anticipates operating the business, however the purchaser is not prohibited from expanding or moving to another market. (App.61 & 62). In all but one of the nearly 250 tumblebus businesses sold by TBI, no territorial operating restrictions were imposed upon the purchasers. Nor are purchasers typically provided any territorial exclusivity. Indeed, there are geographical markets being served by multiple unrelated tumblebus operating companies. (App.58).

In only one of the tumblebus sales by TBI did it impose a contract restriction, in that isolated sale requiring the co-purchasers, Brenda Zinner and Janet Hardin to agree they would not operate their tumblebus business in the Louisville, Kentucky market because TBI did not want them in that market competing with TBI which was itself there rendering the tumblebus services to the daycare centers, at birthday parties and so forth. (App.58-61). Thus, other than that single situation, none of the nearly 250 other purchasers are prohibited from expanding into, or moving their business to Louisville.

So too was the deal with TBI's sale to Pate, Cranmer's predecessor. Although Pate's "target market" was Elizabethtown, Kentucky, TBI's President, Scharlow acknowledged "there was nothing she could do" to prevent Pate from expanding into Louisville. (App.67-69). Notably, if there are to be any contractual operating restriction associated with the operation of a business opportunity, such restrictions are subject to a statute of frauds. Ky. Rev. Stat. § 367.816(1). Both Pate and TBI agree there was no such contract. (App.51, 52, 68 & 69).

Failing in the markets adjoining Louisville, Pate did indeed expand into the Louisville market and Southern Indiana, operated there for a time and then advertised the business for sale. (App.4, 5 & 69). Cranmer commenced negotiating with Pate. For price comparison purposes, Cranmer also contacted TBI to ascertain the price to acquire a new tumblebus business. Cranmer agrees that TBI did inform her it was not interested in quoting a sale for the Louisville market because that market was "saturated." Not concerned about *further* saturating the Louisville market because Cranmer was actually considering purchasing the Pate tumblebus business which was one of

the tumblebus businesses already operating in Louisville, and merely wanting a price for comparison purchases, Cranmer inquired about what the price would be to acquire a tumblebus to operate in Bloomington, Indiana, thus obtaining the desired comparison quote. (App.67, 69-71).

Cranmer then proceeded to purchase Pate's tumblebus business. Thereafter, TBI contacted Cranmer voicing concern about both engaging in business in the same market under the name Tumblebus and suggested Cranmer change her trade name to something other than simply "Tumblebus," suggesting such things as "Meredith's Tumblebus" or "Tumblebus Express." (App.5, 66 & 67). Seeking to appease TBI, Cranmer did change her business name to "Tumblebus Louisville" to differentiate her business from TBI which was from Indiana. Although this was unsatisfactory to TBI, Cranmer refused to again change her company name.

Cranmer merely uses for its intended purpose the tumblebus TBI placed in commerce. TBI emblazoned the bus with the prominent all caps TUMBLEBUS markings. TBI sold the right to use the Tumblebus name. Cranmer does nothing to indicate she is "the original Tumblebus"; "part of their company: or "employed by them." (App. 71). Indeed TBI agrees, admitting that other than displaying the bus and advertising under the purchased "Tumblebus" name, Cranmer has done nothing overtly misleading. As TBI's President admits, "I don't think she's intentionally trying to mislead people. I think that just that the name is Tumblebus and Tumblebus the people automatically are mislead." (App.66).

Thus, TBI instituted this litigation, sought and obtained a preliminary injunction The district court found that by granting widespread approval to others to operate tumblebus businesses under the tumblebus name throughout the country without retaining any quality control, TBI may well have engaged in "naked licensing" which renders the mark legally "abandoned." (App.35-38). However, because there were some attempts on TBI's part to preserve operating exclusivity in the Louisville market, the district court suggested that the mark might only be abandoned outside of that market. (App.36). Thus, in the preliminary injunction, the court provided that Cranmer had the full right to continue to engage in business under the Tumblebus name outside of the Metropolitan Louisville market, but to the extent she operates in Metropolitan Louisville, she must obscure from the side of the bus the TUMBLEBUS marking which had actually been placed there by TBI, and in that market could not operate under the Tumblebus name. (App.27-31, 41-43 & 46). Alternatively reaching that conclusion, the Court sided with TBI contention that Pate should not have expanded into Louisville, even though there was no contractual restriction to that effect as required by the pertinent statute of frauds. Ky. Rev. Stat. § 367.816(1). (App.34).

Further, even though Cranmer was operating a genuine tumblebus business, including use of the bus placed in commerce by TBI emblazoned with the Tumblebus name, the district court held that TBI could reach beyond the sale to both require alteration of the bus, including removal of the "TUMBLEBUS" markings, and could in effect rescind the prior sale of the right to use the word Tumblebus in a trade name, this even though TBI

had not retained the contractual right to do either. To so hold, the trial court indicated the "first sale"/exhaustion of trademark rights rule discussed *infra* only applies to the "resale" of trademarked goods, not the rendering of "services" in association with the lawfully acquired trademark emblazoned equipment. (App.34, 71 & 72). Creating a categorical deviation from the well-settled "first sale" rule, the circuit court agreed holding the rendering of services under a mark would "inherently vary" from the services rendered by the mark owner and thus the "first sale rule must be limited to the resale of trademarked products." (App.21).

Thus, in pertinent part, the circuit court affirmed the holdings relating specifically to the tumblebus mark, although it did vacate and remand for more specific findings the portion of the injunction requiring Cranmer to alter the "colors" of the bus.

REASONS FOR ALLOWING WRIT

I. BY CATEGORICALLY EXCLUDING "SERVICES" FROM THE TRADEMARK "FIRST SALE"/EXHAUSTION RULE, THE COURTS BELOW HAVE CREATED AN APPRECIABLE DEPARTURE FROM WELL-SETTLED LAW.

TBI sold outright to Pate a business including a bus prominently emblazoned on both sides with the word TUMBLEBUS. TBI also sold to Pate the right to use the word "Tumblebus" in her company name. Pate resold to Cranmer that business, including the name. Cranmer thus operates a completely genuine tumblebus business. Prior to making the alterations ordered by the district court,

neither Pate nor Cranmer ever altered the appearance of the bus; it looked just the same as when TBI sold it to Pate, including the use of the "TUMBLEBUS" name as placed on the sides of the bus by TBI. TBI fully benefited from the "first sale" of the business opportunity. TBI retained no contractual right to reach beyond the sale to control use of the tumblebus mark.

Under what was well-settled law, until now, the legal result would be that by virtue of TBI's "first sale" of the trademark emblazoned bus, it had "exhausted" its right to enforce its trademark against Cranmer's genuine use of the mark. As the pertinent part of the *Restatement* notes:

> One is not subject to liability . . . for using another's trademark . . . in marketing genuine goods *or services* the source, sponsorship, or certification of which is accurately identified by the mark unless:
>
> * * *
>
> (b) the actor markets under the mark genuine goods of the other that have been repaired, reconditioned, altered, or used, or genuine services that do not conform to the standards imposed by the other, and the actor's use causes a likelihood of confusion that the goods are new or unaltered . . . or that the services conform to the other's standards.

Restatement (Third) of Unfair Competition § 24 (emphasis added).

Departing from this rule, the decision below holds categorically that the exhaustion rule only applies to the "mere resale" of trademarked goods and can never apply to the rendering of "services" in association with the mark of

another. (App.21, 34, 71 & 72). The absurd effect of this deviation from settled principles is that now, for example, the John Deere Company could market and sell commercial grade tractors to a lawn care service, then later ambush the purchaser, or its successor to extract further remuneration, or to insist upon removal of the John Deere name and colors from the tractors, even though John Deere had sold the business equipment outright without retaining any contractual right to require the trademark removal.

Until now the principles were so well recognized that this Court apparently has never had cause to even review the exhaustion rule since a couple of important cases issued in the first half of the last century, namely *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924) and *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947).

In *Prestonettes*, the Court recognized that the purpose of trademark law is to prevent the sale of a substitute product under the mark of another. "A trade mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another product as his." *Id.* at 368. Thus one who purchased genuine trademarked toilet powders and perfumes could repackage and market same as what they truly were, repackaged quantities of the trademarked product, so long as the repackager did not overtly do anything otherwise deceptive.

In *Champion Spark Plug*, the Respondent was engaged in the business of selling second-hand reconditioned spark plugs which it resold under the Champion trademark, along with a notation the plugs were "renewed." Recognizing "[t]he spark plugs though used, are nonetheless Champion plugs, and not those of another make," *Id.*

at 128, the Court held the plugs could be resold as Champion Spark Plugs so long as the product also contained notations the plugs were "repaired" or "used."

In the years following *Prestonettes* and *Champion Spark Plug*, the circuit courts were completely uniform in their application of the exhaustion doctrine. The leading contemporary case, *Sebastian International Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073 (9th Cir. 1995), traces the history of the doctrine noting:

> Since 1924, courts have recognized a basic limitation on the right of a trademark owner under the Lanham Act to control the distribution of its own products. Beginning with *Prestonettes, Inc. v. Coty*, [citations omitted], courts have consistently held that, with certain well-defined exceptions the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product. Resale by the first purchaser of the original article under the producer's trademark is neither trademark infringement nor unfair competition.

Sebastian, 53 F.3d at 1074.

Under the exhaustion doctrine, there is no infringement of a mark where the sale by others is one of genuine goods or services under the mark *even if such sale is not authorized* by the mark owner. As the *Restatement* notes:

> The trademark owner cannot ordinarily prevent or control the sale of goods bearing the mark once the owner has permitted those goods to enter commerce. It can be said that the rights of the trademark owner are exhausted once the owner authorizes the initial sale of the product under the trademark or that the owner implicitly licenses

> others to further market the goods under the mark. Thus, no infringement occurs when the use of a mark properly identifies the source, sponsorship, or certification of the goods ***or services***, even if the owner of the mark objects to the use.

Restatement (Third) of Unfair Competition § 24 cmt. b (1995) (emphasis added).

The tumblebus name on Cranmer's bus was placed there by TBI. It properly identifies TBI as the original source of the goods. The fact that consumers might correctly recognize the bus as emanating from TBI, notwithstanding the absence of any ongoing relationship between the parties, or be otherwise confused is a risk that TBI assumed with its business model of selling the trademark emblazoned buses and tumblebus business opportunities.

> The "first sale" rule is not rendered inapplicable merely because consumers erroneously believe the reseller is affiliated with or authorized by the producer. It is the essence of the "first sale" doctrine that a purchaser who does no more than stock, ***display*** and resell a producer's product under the producer's trademark violates no right conferred upon the producer by the Lanham Act. When a purchaser resells a trademarked article under the producer's trademark, and nothing more, there is no actionable misrepresentation under the statute.

Sebastian, 53 F.3d at 1076 (emphasis added).

If Cranmer is doing anything to overtly represent that she is officially affiliated with Tumblebus, that might be of concern. However, "absent more culpable conduct" and

doing "nothing more" than displaying the vehicle, and using the name, a right appurtenant to the business opportunity, is lawful behavior. *Id.* If that causes confusion, TBI assumed that risk by selling the business opportunity along with the appurtenant right to use the Tumblebus name. Here even TBI agrees Cranmer did nothing overt to indicate any official affiliation with TBI. *Supra* at 6. TBI injected the bus into commerce, and all Cranmer has done is display the bus, as adorned by TBI, and use it for its intended purpose. Notwithstanding, the courts below have created a new rule which categorically excludes from the exhaustion rule the rendering of services in association with trademark emblazoned equipment.

Cranmer behavior constitutes completely "genuine" use of the tumblebus mark, not an infringement. Cranmer's uses are completely consistent with the standards associated with the mark. As noted in the Statement of the Case above at p. 4, TBI offers a basic training program for the tumblebus purchasers, but thereafter TBI does not monitor whether any of its purchasers follow that training or whether the training basics are passed on to any of the purchasers' employees or successors. Accordingly, any tumblebus business carried on by a successor to any of TBI's customers is totally in conformity with the standards set in the business model established by TBI, thus lawful under the standard articulated in *Restatement (Third) of Unfair Competition* § 24. *See also Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587 (5th Cir. 1993). In *Matrix*, the plaintiff claimed that sale of hair care products under its mark without its authorization constituted infringement, even though they were otherwise genuine products previously sold with its authorization,

because the products were not sold in connection with an ancillary service, an approved cosmetologist's advice. Rejecting this argument, the circuit court held there was no infringement, noting as follows:

> [A]lthough Matrix spends a great deal of time and money educating cosmetologists in the use and sale of its products, it does not require, monitor, or otherwise attempt to insure that consumers who purchase Matrix products in salons are assisted by a cosmetologist in selecting the proper Matrix product. Matrix products may be purchased in a salon either with or without a cosmetologist's advice.

Matrix, 988 F.2d at 592. *See also, H.L. Hayden Co. of New York, Inc. v. Schein Dental Equipment Corp.*, 879 F.2d 1005 (2d Cir. 1989).

Purporting to follow the *H.L. Hayden* case, the circuit court below totally misconstrued it stating it holds for the proposition that a terminated distributor can advertise the sale of genuine product under a mark, but not the services associated with installation of the product. (App.21). Quite to the contrary, what the circuit court in *Hayden* actually held was that the terminated distributor was well within its rights to continue to market the genuine equipment so long as it did not falsely represent that the goods were covered by the manufacturer's warranty. *Id.* at 1008, n.2 & 1024.

Holding categorically that the exhaustion rule can never apply to services rendered in association with the display of genuine trademarked equipment is a drastic deviation from the uniform rule among the circuits, a rule directly derived from the Courts' exhaustion cases. It is respectfully requested that the Court exercise its

discretion to restore the full breath of the rule and its uniform application among the circuits.

II. UNDER THE GUISE OF TRADEMARK LAW, THE DECISION BELOW INFERS AND THEN ENFORCES A CONTRACT WHICH WOULD BE AN UNENFORCEABLE *PER SE* VIOLATION OF ANTITRUST LAW THUS IN CONFLICT WITH RELEVANT DECISIONS OF THIS COURT.

In Kentucky, all terms of agreement associated with the sale of a business opportunity are subject to a Statute of Frauds. Ky. Rev. Stat. § 367.816(1). Nonetheless, alternative to its holding the exhaustion rule does not apply, the district court also inferred an *oral understanding* between TBI and Pate contractually restricting Pate's rights to the mark, inferring a horizontal agreement among TBI and Pate to geographically divide the market. (App.36 & 37).

TBI claims Tara Pate agreed to stay out of the Louisville market, a claim Pate disputes. TBI admits *the very purpose* of this alleged agreement was to avoid competition. Although Tara Pate denies there was any such agreement, even if there were such an agreement it would be unenforceable as a *per se* violation of antitrust law. 15 U.S.C. § 1.

> One of the classic examples of a *per se* violation of § 1 [of the Sherman Act] is an agreement between competitors at the same level of the market structure to allocate territories in order to minimize competition. . . . This Court has reiterated time and time again that '[h]orizontal territorial limitations . . . are naked restraints of trade with no purpose except stifling of competition.' Such limitations are *per se* violations of the Sherman Act.

Palmer v. BRG of Georgia, Inc., 498 U.S. 46, 49 (1990), *quoting United States v. Topco Associates, Inc.*, 405 U.S. 596, 608 (1972) (Court's ellipses).

Simply stated, "agreements between competitors to allocate territories to minimize competition are illegal." *Palmer*, 498 U.S. at 49. *See also, American Motor Inns, Inc. v. Holiday Inns, Inc.*, 521 F.2d 1230, 1242 (3d Cir. 1975) (It is "*per se* unlawful . . . for competitors who operate on the same level of the chain of distribution to agree among themselves on an allocation or division of markets.").

Accordingly, even if there were, as alleged, an oral agreement to geographically divide the markets, because any such agreement would be illegal under the antitrust laws, it would be unenforceable. *See Kaiser Steel Corp. v. Mullins*, 455 U.S. 72, 77-78 (1982).

By purportedly enforcing under trademark law an inferred contractual restriction associated with a trademark transfer, a restriction which if it did exist would constitute a *per se* violation of antitrust law, is directly in conflict with relevant decisions of the Court. It is respectfully requested that the Court consider this deviation important enough for the Court to exercise its discretion to address and cure.

III. THE DECISION BELOW CREATES A CONCEPT OF "PARTIAL" GEOGRAPHICAL TRADEMARK ABANDONMENT IN DIRECT CONFLICT WITH THE UNIFORM RULE AMONG EACH OF THE CIRCUITS AS TO THE EFFECT OF AN ABANDONMENT.

The Lanham Act of 1946, 15 U.S.C. § 1051 *et seq.*, provides that a mark is deemed abandoned and dedicated

to the public domain "when any course of conduct of the owner, including acts of omission, as well as commission, causes the mark to become the generic name of the goods or services . . . *or otherwise to lose its significance as a mark.*" 15 U.S.C. § 1127 (definition of abandonment) (emphasis added). Perhaps because the circuits have so uniformly, until now, interpreted this nearly sixty (60) year old statute, this Court apparently has never had cause to interpret it. Now however, the courts below have created a clear conflict among the circuits.

"A trademark serves as an assurance of quality, consistency and reliability, by indicating the source and control of the product bearing the mark." *Nitro Leisure Products v. Acushnet*, 341 F.3d 1356, 1367 (Fed.Cir. 2003). "If a trademark owner allows licensees to depart from its quality standards, the public will be misled, and the trademark will cease to have utility as an informational device." *TMT North America v. Magic Touch GmbH*, 124 F.3d 876, 885 (7th Cir. 1997). To assure that the consuming public obtains the consistent quality symbolized by a mark, the law imposes upon the trademark licensor a duty to control the quality of product offered by licensees.

A trademark owner may grant a license to use its mark but only so long as the trademark owner controls the quality of the goods and services sold by others under the trademark. *Twentieth Century Fox Film Corp. v. Marvel Ent., Inc.*, 277 F.3d 253, 259 (2d Cir. 2002) (the licensor "is obligated to maintain some control over the quality of the licensed property").

The absence of such control, "naked" licensing, causes the trademark to cease functioning as a symbol of quality

and controlled source. *See Exxon Corp. v. Oxxford Clothes, Inc.*, 109 F.3d 1070, 1075 (5th Cir. 1997) ("A naked license is a trademark licensor's grant of permission to use its mark without attendant provisions to protect the quality of the goods and services provided under the licensed mark."). Absent such quality control, the mark looses its significance as a symbol of quality, indeed could misrepresent quality. *Stanfield v. Osborne Industries, Inc.*, 52 F.3d 867, 871 (10th Cir. 1995) ("When 'a trademark owner engages in naked licensing, without any control over the quality of the goods produced by the licensee, such a practice is inherently deceptive and constitutes abandonment of any rights to the trademark by the licensor'" (citation omitted)); and *Westco Group, Inc. v. K.B. & Assoc's, Inc.*, 128 F. Supp. 2d 1082, 1088 (N.D. Ohio 2001) ("Because naked licensing defeats the purpose of a trademark or trade name, a licensor who engages in naked licensing abandons the trademark or trade name").

As discussed in the Statement of the Facts above, TBI maintains absolutely no control over the nearly 250 persons or businesses to whom it sells tumblebuses and to whom it gives permission to freely use the tumblebus mark in company names, advertising, and on the side of the buses. Scharlow admits that she considered franchising by which she could have exercised control over the tumblebus mark, but decided against it as too time consuming for her schedule.

Indeed, the trial court recognized "validity to the argument" that "by selling buses all over the country with seemingly little strings attached in most instances that is a naked license . . . [and] the Court should view this mark as abandoned." (App.35). Notwithstanding this abandonment through naked licensing, the trial court nonetheless

misinterpreted the law, holding that any abandonment relates only to markets outside the metropolitan Louisville area. The court based this conclusion on its finding that TBI "did exercise *some* concern and restriction against operating a Tumblebus in this area in competition with themselves" and "*attempted* to protect the mark by restricting the sale of buses which might compete with their own, to people who operate outside" the Jefferson County area. (App.36 & 38) (emphasis added). Quite to the contrary however, all but one of the nearly 250 tumblebus owners may operate them anywhere they like, including Louisville, and may sell them to anyone they want, including Louisvillians, with no restrictions.

Affirming this holding that "abandonment may be in some areas and not in others," (App.37), the circuit court created conflict with all the circuits. The current state of post-Lanham Act, law in **every circuit** to discuss the effect of naked licensing recognizes that a trademark owner's failure to maintain quality control constitutes an abandonment of "any rights" in the mark, a loss of trademark rights "against the world." When "a trademark owner engages in naked licensing, without any control over the quality of goods produced by the licensee, such a practice is inherently deceptive and constitutes abandonment of *any* rights to the trademark by the licensor." *Stanfield v. Osborne Industries, Inc.*, 52 F.3d 867, 871 (10th Cir. 1995). "[N]aked licensing . . . results in a loss of trademark rights against the world." *Exxon Corp. v. Oxxford Clothes*, 109 F.3d 1070, 1075-1076 (5th Cir. 1997). "A defense of abandonment, by contrast, does result in the loss of trademark rights against the world." *TMT North America, Inc. v. Magic Touch GmbH*, 124 F.3d 876, 885 (7th Cir. 1997) (*citing Sweetheart Plastics, Inc. v. Detroit*

Forming, Inc., 743 F.2d 1039, 1046 (4th Cir. 1984)). "[N]aked licensing if established is treated as an abandonment of the trademark, which triggers the loss of trademark rights against the world." *Creative Gifts, Inc. v. UFO*, 235 F.3d 540, 548 (10th Cir. 2000).

This was not always the rule. Prior to the enactment of the Lanham Act of 1946, 15 U.S.C. § 1051 *et seq.*, trademark protection was generally a matter of state law. The unfortunate result of the prior scheme was that trademarks were entitled only to local protection, where a totally unrelated company could use the identical mark in other geographical markets. *See, e.g., Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916); *United Drug Co. v. Theodore Rectanus*, 248 U.S. 90 (1918). As the legislative history of the Lanham Act notes, "the theory once prevailed that protection of trademarks was entirely a state matter and that the right to a mark was a common-law right . . . A man's right in his trademark in one State may differ widely from the rights which he enjoys in another." S. Res. No. 1333, 79th Cong. 2d Sess. (1946), U.S.C.C.A.N. at 1276-1277.

With the world "growing smaller" and commerce becoming more national, one of the very purposes of the enactment of the Lanham Act of 1946, 15 U.S.C. § 1051 *et seq.*, was to the extent possible, to provide for nationwide rights in a trademark, not a piecemeal division of rights among unrelated entities. As the legislative history notes, "[T]rade is no longer local but is national. Marks used in interstate commerce are properly the subject of federal regulation . . . a sound public policy requires that trademarks should receive nationally the greatest protection that can be given them." S. Res. No. 1333, 79th Cong. 2d Sess. (1946), U.S.C.C.A.N. at 1277.

The authority relied upon by the trial court to support its holding that naked licensing can result in only partial abandonment, if applicable at all, is clearly obsolete. *See E.F. Pritchard Co. v. Consumers Brewing Co.*, 136 F.2d 512 (6th Cir. 1943) and *Sheila's Shine Products, Inc. v. Sheila Shine, Inc.*, 486 F.2d 114 (5th Cir. 1973).

Pritchard predates the Lanham Act of 1946, 15 U.S.C. § 1051 *et seq.*, which established national trademark rights. *Pritchard* dates from the era when trademark protection was essentially a creature of state law and trademark rights were limited to geographical markets of actual use. Further, any reference in *Pritchard* to naked licensing effecting only a partial abandonment is pure *dictum.* In the very next paragraph, the Court noted it need not definitively resolve that question because there was a contractual stipulation between the parties as to their respective ownership rights. "It is unnecessary to determine whether the mark was adopted and used in such a manner as to entitle one of the parties to be protected . . . where the parties entered into a contract in which they agreed that the other shall be owner of the mark." *Id.* at 522.

Likewise inapplicable is the Fifth Circuit's 1973 *Sheila's Shine* case which involved an estoppel, not a conventional abandonment. Further *Sheila's Shine* precedes more recent authority of that circuit which actually explained and distinguished *Sheila's Shine,* while recognizing the uniform rule that "naked licensing . . . results in a loss of trademark rights against the world." *See Exxon Corp. v. Oxxford Clothes,* 109 F.3d 1070, 1075 (5th Cir. 1997).

Granted, the *Restatement,* which was released in 1995, prior to the Fifth Circuit's 1997 clarification of *Sheila's Shine* in *Exxon* notes the *possibility* that naked licensing may result in only a partial geographical abandonment of rights in a mark. *Restatement (Third) of Unfair Competition* § 33, cmt. b. However, the only authority cited by the *Restatement* in support of that passage is the Fifth Circuit's anomalous, inapplicable and now obsolete *Sheila's Shine* case.

Thus the current state of post-Lanham Act law in **every circuit** to discuss the effect of naked licensing recognizes that a trademark owner's failure to maintain any quality control constitutes an abandonment of "any rights" in the mark, a loss of trademark rights "against the world." Holding otherwise, the panel has created an unnecessary split among the Circuits.

It is respectfully requested that the Court consider this conflict among the circuits important enough for the Court to exercise its discretion and cure.

CONCLUSION

Through especially creative reasoning, the courts below have so deviated from uniform principles of law to hold that one may sell a business opportunity, including title to commercial equipment emblazoned with the seller's marks, and outright sell of the right to use a trade name, but later reach beyond the sale to unilaterally interfere with what was sold.

The absurd effect of this deviation from settled principles is that now, for example, the John Deere Company could market and sell commercial grade tractors to a lawn care service, then later ambush the purchaser, or its successor to extract further remuneration or to insist upon removal of the John Deere name and colors from the tractors even though John Deere had sold the business equipment outright without retaining any contractual right to require the trademark removal.

We respectfully request that the Court exercise its discretion to cure this absurd deviation from the Court's decisions and the uniform authority of the other circuits.

Respectfully submitted,

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RECOMMENDED FOR FULL-TEXT PUBLICATION
Pursuant to Sixth Circuit Rule 206

UNITED STATES COURTS OF APPEALS

FOR THE SIXTH CIRCUIT

TUMBLEBUS INC., *Plaintiff-Appellee,*	-
v.	No. 04-5060
MEREDITH CRANMER, d/b/a Tumblebus of Louisville, *Defendant-Appellant.*	

Appeal from the United States District Court
for the Western District of Kentucky at Louisville.
No. 03-00466 – Charles R. Simpson, III, District Judge.

Argued: September 14, 2004

Decided and Filed: January 13, 2005

Before: MOORE and CLAY, Circuit Judges;
HAYNES, District Judge.*

COUNSEL

ARGUED: Jack Allen Wheat, STITES & HARBISON, Louisville, Kentucky, for Appellant. James R. Higgins, Jr., MIDDLETON REUTLINGER, Louisville, Kentucky, for Appellee. **ON BRIEF:** Jack Allen Wheat, Bethany A.

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* The Honorable William J. Haynes, United States District Judge for the Middle District of Tennessee, sitting by designation.

Breetz, STITES & HARBISON, Louisville, Kentucky, Samuel F. Miller, Stites & Harbison, Nashville, Tennessee, for Appellant. James R. Higgins, Jr., Julie A. Gregory, Robert J. Theuerkauf, MIDDLETON REUTLINGER, Louisville, Kentucky, for Appellee.

OPINION

KAREN NELSON MOORE, Circuit Judge. Defendant-Appellant Meredith Cranmer ("Cranmer"), d/b/a Tumblebus of Louisville, appeals from the district court's order granting Plaintiff-Appellee Tumblebus Incorporated's ("Tumblebus Inc.") motion for a preliminary injunction restricting Cranmer's use of the TUMBLEBUS mark and related trade dress during the pendency of the underlying infringement action. For the reasons set forth below, we **AFFIRM** in part, **VACATE** in part, and **REMAND** to the district court for further consideration of Tumblebus Inc.'s motion for a preliminary injunction.

I. BACKGROUND

In 1987, Brenda Scharlow ("Scharlow") launched Tumblebus Inc., a company which provides gymnastics and physical education instruction to children. Tumblebus Inc., which bills itself as a "mobile gym on wheels," furnishes such instruction on-site at day-care centers, birthday parties, and the like through the use of school buses retrofitted with gymnastics and other athletic equipment. Tumblebus Inc. currently operates three to four buses on a regular basis, marketing its services in the greater Louisville, Kentucky area.

Tumblebus Inc.'s business has also expanded to include the sale of retrofitted school buses to other persons wishing to enter the mobile-gymnastics-instruction market. Tumblebus Inc. has sold over two hundred retrofitted school buses to persons across the United States. Buses sold by Tumblebus Inc. seem to be similar in appearance to those used by Tumblebus Inc. in its own gymnastics-instruction business. Tumblebus Inc. permits purchasers to use the "Tumblebus" name when marketing their services, and many purchasers operate under names that include the word "Tumblebus." For approximately six years, Tumblebus Inc.'s training session for new bus purchasers has included a presentation by Donna Dugan ("Dugan"), owner of the Hot Fonts printing company, who offers for sale pre-designed letterhead, flyers, and other marketing materials containing the Tumblebus name and iconography.

According to Scharlow, Tumblebus Inc.'s expansion into selling retrofitted buses to other operators began somewhat informally, and the decision was made early on not to structure the business as a franchise because franchising would require too much on-site monitoring of individual franchisees' operations. Tumblebus Inc.'s record-keeping also appears rather informal, and according to Scharlow, Tumblebus Inc. does not have a complete list of all persons who have purchased retrofitted buses. Tumblebus Inc., however, has maintained contact with some purchasers, distributing new lesson plans and business development ideas.

In November 2001, Tara Pate ("Pate") purchased a retrofitted bus from Tumblebus Inc. When Pate first discussed her potential purchase with Scharlow, she indicated that she planned to operate in Lexington,

Kentucky. Scharlow, however, informed Pate that two other persons were already operating in Lexington, but suggested that Pate could instead service Elizabethtown, Brandenburg, Mt. Washington, Bardstown, and Radcliff, Kentucky. According to Scharlow and her husband, Pate orally agreed to operate in this area but not to expand into Louisville, where Tumblebus Inc. was based. The Scharlows admit, however, that they forgot to put this agreement in writing. Testimony at the hearing also indicates that during a meeting between Pate, Pate's mother, and Scharlow, Scharlow refused to include a territory provision in Pate's purchase contract. When asked what would prevent Pate from operating in the Louisville area, Scharlow apparently responded that there would be nothing that she could do to stop Pate from soliciting customers in the Louisville area, but that she was confident in her customers' loyalty to Tumblebus Inc.[1]

In January 2002, Scharlow learned that Pate had distributed flyers advertising her business to day-care centers in the Louisville area. Scharlow contacted Pate, reminding Pate that she was not supposed to be operating in that area. Pate explained that she was having difficulty in obtaining customers in Elizabethtown and the surrounding areas, to which Scharlow responded that Pate could expand her operations into north Bullitt County,

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[1] A few of Tumblebus Inc.'s sales contracts do include written geographic restrictions. According to Scharlow, she has "agreements with every person that buys a bus from [her], an oral agreement. But then it happens that some of the people on the east coast, they want it in written [sic]. They're a little less trustworthy, so the five [written agreements with geographic restrictions that were produced during discovery] were the five [she] had in writing." Joint Appendix ("J.A.") at 87 (D. Ct. Hr'g Tr. at 89).

Kentucky, which included a day-care center that Tumblebus Inc. previously had serviced. Ultimately, however, Pate decided to leave the mobile-gymnastics-instruction market and listed her bus for sale in a Louisville newspaper.

Cranmer noticed Pate's advertisement in the Louisville newspaper and contacted Tumblebus Inc. in order to determine, for comparison purposes, what a newly retrofitted bus from Tumblebus Inc. would cost. Scharlow testified that when Cranmer called, she noticed that Cranmer's telephone number had a Louisville area code, so she asked Cranmer from where she was calling. When Cranmer explained that she was calling from Louisville, Scharlow apparently responded that she would not sell Cranmer a bus in Louisville because other Tumblebus operators were already in that area. Cranmer then stated that her sister was interested in purchasing a bus for operation in Bloomington, Indiana, and the discussion continued.

In April 2002, Cranmer purchased Pate's Tumblebus and began operating in the Louisville area under the name "Tumblebus." Upon learning that Cranmer was operating in Louisville, Scharlow contacted Cranmer. Cranmer and Scharlow discussed the possibility of Cranmer changing or adding something to the name of Cranmer's business, and Scharlow suggested such names as "Meredith's Tumblebus," "Fun Bus," and "Gym on Wheels." Cranmer eventually listed her business in the fall 2002 Louisville telephone book (with the same Louisville telephone number previously used by Pate) under the name "Tumblebus of Louisville." Tumblebus Inc. also appeared in the fall 2002 Louisville telephone book, but was listed after "Tumblebus of Louisville," appeared in smaller typeface, and included a New Albany, Indiana telephone number.

Scharlow then began insisting that Cranmer remove the word "Tumblebus" from her business's name.

Scharlow claims that Tumblebus Inc. has suffered adverse consequences because of Cranmer's operation in the Louisville area. During the preliminary hearing, Scharlow recounted incidents in which customers apparently confused the two businesses, such as customers sending their payments to the wrong business and persons who had contracted with Cranmer telephoning Tumblebus Inc. when Cranmer failed to show up for scheduled appointments. According to Scharlow, Tumblebus Inc.'s income has declined as a result.

In July 2003, Tumblebus Inc. filed suit against Cranmer in the U.S. District Court for the Western District of Kentucky, accusing Cranmer of trademark infringement, trade dress infringement, and false advertising in violation of § 43 of the Lanham Act, 15 U.S.C. § 1125(a), as well as trademark infringement, trade dress infringement, and unfair competition under Kentucky common law. Tumblebus Inc. then moved for entry of an order preliminarily enjoining Cranmer from using the TUMBLEBUS mark and associated trade dress. In December 2003, the district court held a hearing with respect to whether a preliminary injunction should issue, during which Scharlow, Scharlow's husband (Larry Scharlow), Cranmer, Pate, Pate's mother (Karen Morris), and Dugan testified. At the conclusion of the hearing, the district judge stated that he would grant Tumblebus Inc.'s request for a preliminary injunction with respect to Cranmer's use of the TUMBLEBUS mark in Jefferson County, Kentucky; Floyd County, Indiana; and Clark County, Indiana (collectively, the "greater Louisville area"). The district judge also indicated that he would enjoin Cranmer from using

the TUMBLEBUS trade dress in the greater Louisville area, but stated that he would allow Cranmer time to decide whether she would continue to provide mobile-gymnastics services in the greater Louisville area (which would require physical alteration of the bus's appearance) or whether she would operate exclusively outside the greater Louisville area (in which case no change in the bus's exterior would be required).[2] In January 2004, the district court issued its preliminary injunction order, and Cranmer timely appealed to this court.

II. ANALYSIS

A. Grounds For Obtaining A Preliminary Injunction

When considering a motion for preliminary injunctive relief, courts must balance:

> (1) whether the movant has a strong likelihood of success on the merits; (2) whether the movant would suffer irreparable injury without the injunction; (3) whether issuance of the injunction would cause substantial harm to others; and (4) whether the public interest would be served by issuance of the injunction.

PACCAR Inc. v. TeleScan Techs., L.L.C., 319 F.3d 243, 249 (6th Cir. 2003). The preliminary question of whether a movant is likely to succeed on the merits is a question of law which we decide de novo. *N.A.A.C.P. v. City of*

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[2] In March 2004, during the pendency of this appeal, Tumblebus Inc. filed a motion requesting that the district court hold Cranmer in contempt of the preliminary injunction order for failure to alter adequately the exterior of her bus. The district court declined to hold Cranmer in contempt, but did set forth specific alterations Cranmer must make to the exterior of her bus.

Mansfield, 866 F.2d 162, 169 (6th Cir. 1989). We review for abuse of discretion, however, the district court's ultimate determination as to whether the four preliminary injunction factors weigh in favor of granting or denying preliminary injunctive relief. *PACCAR,* 319 F.3d at 249; *N.A.A.C.P.,* 866 F.2d at 166 (noting that a "district judge's weighing and balancing of the equities should be disturbed on appeal only in the rarest of cases") (internal quotation marks and citations omitted). A district court has abused its discretion if it has "relied upon clearly erroneous findings of fact, improperly applied the governing law, or used an erroneous legal standard." *PACCAR,* 319 F.3d at 249 (internal quotation marks and citation omitted).

In granting Tumblebus Inc.'s motion for a preliminary injunction, the district court below concluded that Tumblebus Inc. had demonstrated a strong likelihood of success on its TUMBLEBUS mark and trade dress infringement claims, notwithstanding Cranmer's various asserted defenses; that Tumblebus Inc. faced irreparable harm in the absence of injunctive relief, based on the evidence of actual confusion and the financial losses already sustained by Tumblebus Inc.; that the injunction would not cause substantial harm to Cranmer because the injunction did not require Cranmer's business to cease operation; and that the public interest weighed in favor of injunctive relief because of the risk of confusion. On appeal, Cranmer's central argument, and thus the focus of our inquiry, is that the preliminary injunction entered in this case cannot stand because Tumblebus Inc. has failed to demonstrate a strong likelihood of succeeding on the claims it asserts in this action. *See id.* at 249, 258; *see also*

Circuit City Stores, Inc. v. CarMax, Inc., 165 F.3d 1047, 1056 (6th Cir. 1999).

B. Likelihood Of Success On Lanham Act Mark[3] Infringement Claim

Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), provides a federal cause of action for infringement of marks and trade dress that have not obtained federal registration. *See Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992); *ETW Corp. v. Jireh Publ'g, Inc.*, 332 F.3d 915, 921 (6th Cir. 2003); *Gray v. Meijer, Inc.*, 295 F.3d 641, 645 (6th Cir. 2002). When evaluating a Lanham Act claim for infringement of an unregistered mark, courts must determine whether the mark is protectable, and if so,

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[3] Both parties and the district court below have referred to the TUMBLEBUS mark as a "trademark." We note, however, that because Tumblebus Inc. is challenging Cranmer's provision of mobile-gymnastics services under the TUMBLEBUS mark, and not her sale of retrofitted school buses, the term TUMBLEBUS would seem to be more appropriately labeled a "service mark" in the context of this suit. *Compare* 15 U.S.C. § 1127 ¶ 12 (providing that "[t]he term 'service mark' . . . [is used] to identify and distinguish the services of one person, including a unique service, from the services of others and to indicate the source of the services, even if that source is unknown") *with* 15 U.S.C. § 1127 ¶ 11 (stating that "[t]he term 'trademark' . . . [is] used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown"); *see also Circuit City Stores, Inc. v. CarMax, Inc.*, 165 F.3d 1047, 1054 (6th Cir. 1999) ("Rights to service marks are acquired and protected in the same way as rights to trademarks. Rights to trade names are also acquired and protected in the same way as rights to trademarks (and service marks).") (citation omitted).

whether there is a likelihood of confusion as a result of the would-be infringer's use of the mark.[4]

1. Existence Of A Protectable Mark

First, we must consider whether the district court erred in concluding that TUMBLEBUS is a protectable mark whose infringement can give rise to liability under § 43(a) of the Lanham Act. The protectability of the TUMBLEBUS mark depends on the level of the mark's distinctiveness. Suggestive,[5] arbitrary,[6] and fanciful[7] marks are inherently distinctive and are protectable so long as the putative owner has actually used the mark. *See Two Pesos,* 505 U.S. at 768; *Circuit City,* 165 F.3d at 1054-55. Merely

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[4] "Section 43(a) prohibits a broader range of practices than does § 32, which applies to registered marks, but it is common ground that § 43(a) protects qualifying unregistered trademarks and that the general principles qualifying a mark for registration under § 2 of the Lanham Act are for the most part applicable in determining whether an unregistered mark is entitled to protection under § 43(a)." *Two Pesos, Inc. v. Taco Cabana, Inc.,* 505 U.S. 763, 768 (1992) (internal quotation marks and citations omitted).

[5] A suggestive mark "suggests rather than describes an ingredient or characteristic of the goods and requires the observer or listener to use imagination and perception to determine the nature of the goods." *Induct-O-Matic Corp. v. Inductotherm Corp.,* 747 F.2d 358, 362 (6th Cir. 1984) (internal quotation marks and citation omitted).

[6] "An 'arbitrary' mark has a significance recognized in everyday life, but the thing it normally signifies is unrelated to the product or service to which the mark is attached, such as CAMEL cigarettes or APPLE computers." *Champions Golf Club, Inc. v. The Champions Golf Club, Inc.,* 78 F.3d 1111, 1117 (6th Cir. 1996) (internal quotation marks and citation omitted).

[7] "A 'fanciful' mark is a combination of letters or other symbols signifying nothing other than the product or service to which the mark has been assigned, such as EXXON or KODAK." *Champions Golf Club,* 78 F.3d at 1117 (internal quotation marks and citation omitted).

descriptive marks[8] are not "inherently distinctive," but can become protectable by developing a secondary meaning.[9] Generic marks,[10] on the other hand, receive no protection. *See DeGidio v. West Group Corp.*, 355 F.3d 506, 510 (6th Cir.), *cert. denied,* 124 S. Ct. 2842 (2004). In the case at bar, the district court appears to have concluded that the TUMBLEBUS mark is protectable as a suggestive mark, a finding which we review for clear error.[11] *See id.* at 511.

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[8] "A 'merely descriptive' mark, as opposed to a 'common descriptive' [generic] one, is often said to identify a characteristic of the thing. It is very similar to an adjective." *Nartron Corp. v. STMicroelectronics, Inc.*, 305 F.3d 397, 404 n.7 (6th Cir. 2002), *cert. denied,* 538 U.S. 907 (2003).

[9] "To acquire a secondary meaning in the minds of the buying public, an article of merchandise when shown to a prospective customer must prompt the affirmation, 'That is the article I want because I know its source,' and not the negative inquiry as to 'Who makes that article?'" *Esercizio v. Roberts,* 944 F.2d 1235, 1239 (6th Cir. 1991), *cert. denied,* 505 U.S. 1219 (1992) (internal quotation marks omitted). When determining whether a particular mark or trade dress has acquired a secondary meaning, we apply a seven-factor test which considers: "(a) direct consumer testimony; (b) consumer surveys; (c) exclusivity, length, and manner of use; (d) amount and manner of advertising; (e) amount of sales and number of customers; (f) established place in the market; and (g) proof of intentional copying." *Abercrombie & Fitch Stores, Inc. v. Am. Eagle Outfitters, Inc.*, 280 F.3d 619, 640 n.14 (6th Cir. 2002) (citations omitted). Merely descriptive marks that have been registered federally and that have become incontestable pursuant to 15 U.S.C. § 1065 are presumed to have acquired a secondary meaning. *See Nartron,* 305 F.3d at 404 n.7.

[10] "A generic term is one that is commonly used as the name of a kind of goods. Unlike a trademark, which identifies the source of a product, a generic term merely identifies the genus of which a particular product is a species. If a mark's primary significance is to describe a type of product rather than the producer, it is generic and is not a valid trademark." *Nartron,* 305 F.3d at 404 (internal quotation marks and citations omitted).

[11] The district court's oral ruling on the question of the TUMBLEBUS mark's distinctiveness is admittedly a bit opaque; however, based

(Continued on following page)

Cranmer contends that Tumblebus Inc. is unlikely to succeed on the merits of its mark infringement claim because TUMBLEBUS is a generic term not entitled to Lanham Act protection. In Cranmer's view, the two constituent parts of TUMBLEBUS – "tumble" and "bus" – are generic terms that, when combined, are the most concise, easily understood way of referring to the services provided by Cranmer and Tumblebus Inc.[12] *See In re Gould Paper Corp.*, 834 F.2d 1017, 1019 (Fed. Cir. 1987) (concluding that the term "screenwipe" is generic, explaining that, "[The defendant] has simply joined the two most pertinent and individually generic terms applicable to its product, and then attempts to appropriate the ordinary compound thus created as its trademark. In this instance, the terms remain as generic in the compound as individually, and the compound thus created is itself generic.").

In support of her argument that TUMBLEBUS is a generic term, Cranmer cites Scharlow's testimony that TUMBLEBUS was a "natural" choice because Tumblebus Inc.'s business was "tumbling on a bus," and that

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on the district court's reference to actual use and its characterization of the mark as "unique," we conclude that the district court classified TUMBLEBUS as a suggestive mark, and not one that is merely descriptive. J.A. at 570-71.

[12] Cranmer also appears to suggest that TUMBLEBUS has become generic through the sale of Tumblebuses across the country, such that the term TUMBLEBUS has become synonymous with the provision of mobile-gymnastics services. *See Duncan, Inc. v. Royal Tops Mfg. Co.*, 343 F.2d 655, 667 (7th Cir. 1965) (collecting cases involving such terms as "aspirin" and "cola" that have been victims of "genericide," a process by which terms lose their significance as indicators of origin as a result of widespread public usage). The evidentiary record before us, however, provides little guidance as to any evolving public understanding of the term TUMBLEBUS, and thus we cannot conclude at this time that the term TUMBLEBUS has become generic.

TUMBLEBUS was "the most descriptive name [Scharlow] could think of." Joint Appendix ("J.A.") at 128 (Test. of Brenda Scharlow at 141). This statement by Scharlow, however, does not prove that TUMBLEBUS is in fact generic. First, Scharlow subsequently clarified during her testimony that the term "preschool gym on wheels" would be more descriptive of Tumblebus Inc.'s business than TUMBLEBUS. J.A. at 130-31 (Test. of Brenda Scharlow at 143-44). Moreover, many of the Tumblebus advertising materials, including those used by Tumblebus Inc., bear phrases such as "gym on wheels," which indicates that the term TUMBLEBUS alone has not been sufficient to convey the nature of Tumblebus Inc.'s services. J.A. at 220-21 (Tumblebus Inc. letterhead including subtitles "mobile gym on wheels" and "A bus filled with fun equipment bringing fitness to children at daycares, elementary and private schools"); J.A. at 226 (Tumblebus Inc. business card including subtitle "A Gym on Wheels"). Thus, we conclude that the district court did not clearly err in finding that TUMBLEBUS is not a generic term incapable of obtaining protected status.

Moreover, upon consideration of the record before us, the district court's apparent categorization of TUMBLEBUS as a suggestive, rather than merely descriptive, mark is not clear error. The line between merely descriptive and suggestive marks is admittedly hazy and can be difficult to discern. *See DeGidio,* 355 F.3d at 510 n.10. Nevertheless, the TUMBLEBUS mark shares a closer kinship with those marks previously designated as suggestive than those labeled merely descriptive because of the degree of inferential reasoning necessary for a consumer to discern that the TUMBLEBUS mark relates to the provision of on-site gymnastics and fitness instruction to children. *See*

Induct-O-Matic Corp. v. Inductotherm, 747 F.2d 358, 362 (6th Cir. 1984) (explaining that a suggestive mark "requires the observer or listener to use imagination and perception to determine the nature of the goods") (internal quotation marks and citations omitted). Although the word "tumble" does describe a subset of the activities which occur inside Tumblebus Inc.'s "bus," the connection between "tumble" and "bus" is not so obvious that a consumer seeing TUMBLEBUS in isolation would know that the term refers to mobile-gymnastics instruction, and not, for instance, a mobile laundry service using tumble-dryers. Again, the fact that Tumblebus Inc. has found it necessary to include explanatory phrases such as "gym on wheels" in its advertising materials indicates that the term TUMBLEBUS does not merely describe the services provided by Tumblebus Inc. As a result, we conclude that the district court did not clearly err in classifying TUMBLEBUS as an inherently distinctive, suggestive mark.

2. Likelihood Of Confusion

To recover on a claim of mark infringement, a mark's owner must establish not only that the mark is protectable, but also that use of the mark by the opposing party is likely to cause confusion. When evaluating the likelihood of confusion, a district court must balance the following factors:

1. strength of the plaintiff's mark;
2. relatedness of the goods;
3. similarity of the marks;
4. evidence of actual confusion;
5. marketing channels used;

6. likely degree of purchaser care;

7. defendant's intent in selecting the mark; [and]

8. likelihood of expansion of the product lines.

Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc., 670 F.2d 642, 648 (6th Cir.), *cert. denied,* 459 U.S. 916 (1982) (internal quotation marks and citation omitted). On appeal, we review for clear error the district court's findings of fact with respect to each of the *Frisch* likelihood-of-confusion factors, but we "review *de novo* the legal question of whether those foundational facts constitute a 'likelihood of confusion.'" *Champions Golf Club, Inc. v. The Champions Golf Club, Inc.*, 78 F.3d 1111, 1116 (6th Cir. 1996).

Cranmer does not appear to challenge the district court's likelihood-of-confusion determination, and testimony elicited at the evidentiary hearing, as well as Cranmer's interrogatory responses, indicate that Cranmer's and Tumblebus Inc.'s customers have actually confused the two businesses, misdirecting payments and telephone inquiries. We conclude that the TUMBLEBUS mark's relative strength as a suggestive mark and the record evidence of actual confusion weigh in favor of finding a likelihood of confusion, and that, based on the record before us, none of the other *Frisch* factors militate against such a finding. *See id.* at 1116-17 (explaining that "[a] suggestive term is considered stronger than one that is merely descriptive," albeit not as strong as an arbitrary or fanciful mark); *Wynn Oil Co. v. Thomas,* 839 F.2d 1183, 1188 (6th Cir. 1988) (noting that "[e]vidence of actual confusion is undoubtedly the best evidence of likelihood of confusion"). Thus, Tumblebus Inc. has made a sufficient

showing of likely confusion to sustain entry of a preliminary injunction with respect to the TUMBLEBUS mark.

3. Asserted Defenses

a. Abandonment Of Rights In A Mark Through Naked Licensing

Cranmer argues that Tumblebus Inc. is unlikely to succeed on the merits of its mark infringement claim because Tumblebus Inc. has abandoned any rights it might have to the TUMBLEBUS mark through "naked licensing." Title 15 U.S.C. § 1127 provides that:

> [a] mark shall be deemed "abandoned" . . . [w]hen any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark.

One method by which a mark may be abandoned is through "naked licensing," which occurs "[w]hen a trademark owner fails to exercise reasonable control over the use of a mark by a licensee," such that "the presence of the mark on the licensee's goods or services misrepresents their connection with the trademark owner since the mark no longer identifies goods or services that are under the control of the owner of the mark" and the mark can no longer provide "a meaningful assurance of quality." RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. b (1995).

According to Cranmer, Tumblebus Inc.'s pattern of allowing its purchasers to use the term "Tumblebus" in their businesses has resulted in the TUMBLEBUS mark

losing its significance in the greater Louisville area. The record before us, however, contains insufficient evidence for us to conclude that Cranmer's defense of abandonment is so strong as to make it unlikely that Tumblebus Inc. will succeed on the merits of its trademark infringement claim. *See Exxon Corp. v. Oxxford Clothes, Inc.*, 109 F.3d 1070, 1075-76 (5th Cir.), *cert. denied*, 522 U.S. 915 (1997) ("Because naked licensing is generally ultimately relevant only to establish an unintentional trademark abandonment which results in a loss of trademark rights against the world, the burden of proof faced by third parties attempting to show abandonment through naked licensing is stringent."). First, based on the testimony presented at the evidentiary hearing, it is unclear whether the relationship between Tumblebus Inc. and the purchasers of its buses with respect to the TUMBLEBUS mark is most aptly categorized as a license, a consent-to-use agreement, or neither. *See* 2 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:79 (4th ed. 2004) ("In a license, the licensee is engaging in acts which would infringe the licensor's mark but for the permission granted in the license. In that event, quality control is essential. . . . A consent agreement does not require quality control because by the very essence of the agreement, the parties recognize that concurrent usage does not lead customers to link the goods or services of the parties. Whereas a license brings the parties together into a common public image and a joint enterprise, a consent agreement keeps the parties apart at a defined distance.").

Moreover, Cranmer's abandonment defense lacks force because it relies on abandonment of the TUMBLEBUS mark in other parts of the United States to effectuate a forfeiture of Tumblebus Inc.'s rights to the mark in the

greater Louisville area.[13] In support of her abandonment defense, Cranmer asserts that, in creating the Lanham Act, Congress recognized the need for nationalization of trademark law in light of the increasing nationalization of trade and commerce. Arguably, some of our prior decisions have suggested that a junior mark-user's operation in a different geographic region from the senior mark-user might not, by itself, foreclose the senior mark-user's claim for infringement against the junior user. *See Circuit City*, 165 F.3d at 1056-57 (Jones, J., concurring); *Champions*, 78 F.3d at 1121-22. These cases would be turned on their heads, however, if we were to conclude that, because trademark rights may extend beyond the particular geographic area in which a business operates, a trademark holder may also lose any rights it has in a mark anywhere in the United States by abandoning the mark in one part of the country or by failing to establish a mark with national significance.

Indeed, contrary to Cranmer's suggestion otherwise, there is considerable support for the concept that rights in

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[13] In raising this argument, Cranmer places much emphasis on Professor McCarthy's oft-repeated phrase that "abandonment opens rights to the whole world." 2 MCCARTHY ON TRADEMARKS § 17:1. Cranmer's reliance on this phrase, however, is misplaced because it takes the phrase out of context and, as a result, misconstrues its meaning. Courts have spoken of abandonment as effectuating a loss of trademark rights vis-à-vis "the whole world" in order to distinguish the defense of abandonment, which prevents a mark holder from asserting a claim against *any* infringer, from the defense of acquiescence, in which a mark owner loses the ability to enforce his or her rights against a *particular* infringer. *See* MCCARTHY, *supra* ("Once held abandoned, a mark falls into the public domain and is free for all to use. While acquiescence may bar suit against one person, abandonment opens rights to the whole world. Abandonment paves the way for future possession and property in any other person.").

a mark may be abandoned in certain geographic areas but not others (i.e., "partial geographic abandonment"). *See Sheila's Shine Prods., Inc. v. Sheila Shine, Inc.*, 486 F.2d 114, 124-25 (5th Cir. 1973); *E.F. Prichard Co. v. Consumers Brewing Co.*, 136 F.2d 512, 522 (6th Cir. 1943), *cert. denied*, 321 U.S. 763 (1944) ("While a trade-mark extends to every market where the trader's goods have become known and identified by his use of the mark, the mark itself cannot travel to markets where the trader does not offer, or has not offered, the articles for sale. Such permission for use north of the Ohio river, would be a naked license and void, resulting in an abandonment by Prichard of any rights to the mark *in that area.*") (emphasis added) (citations omitted); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 30 cmt. a ("Priority at common law . . . extends only to the geographic areas in which the trademark owner uses the designation or in which the designation is associated with the trademark owner. Common law priority *in a particular geographic area* is thus lost if the designation has been abandoned by the owner in that geographic area.") (emphasis added) (citation omitted); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. b ("If substantial uncontrolled use is confined to a particular geographic or product market, a court may conclude that the mark has been abandoned only in that geographic area or in connection with use on that product. The trademark owner then retains its priority in the use of the mark in other areas or on other products.").

In the end, we must return to the statutory mandate of § 1127, which provides that abandonment occurs when a term "lose[s] its significance as a mark." So long as the TUMBLEBUS mark retains its significance in the greater Louisville area, we fail to see why Tumblebus Inc. should

be foreclosed from asserting its rights in the TUMBLEBUS mark in that market. *See Exxon,* 109 F.3d at 1079-80 ("[I]f a trademark has not ceased to function as an indicator of origin there is no reason to believe that the public will be misled; under these circumstances, neither the express declaration of Congress's intent in subsection 1127(2) nor the corollary policy considerations which underlie the doctrine of naked licensing warrant a finding that the trademark owner has forfeited his rights in the mark."). Given the lack of evidence in the record suggesting that the TUMBLEBUS mark has in fact lost its significance in the greater Louisville area, we conclude that the district court did not err in determining that Tumblebus Inc. is likely to succeed on its mark infringement claim notwithstanding Cranmer's asserted defense of abandonment.

b. "First-Sale" Defense

Cranmer also argues that Tumblebus Inc. is unlikely to succeed on the merits of its mark infringement claim because the exhaustion (or "first-sale") defense insulates Cranmer from liability. The first-sale doctrine provides that "a purchaser who does no more than stock, display, and resell a producer's product under the producer's trademark violates no right conferred upon the producer by the Lanham Act." *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.,* 53 F.3d 1073, 1076 (9th Cir.), *cert. denied,* 516 U.S. 914 (1995); *see also PACCAR Inc. v. TeleScan Techs., L.L.C.,* 319 F.3d 243, 257 (6th Cir. 2003). This is true because, when a retailer merely resells a genuine, unaltered good under the trademark of the producer, the use of the producer's trademark by the reseller will not deceive or confuse the public as to the nature, qualities,

and origin of the good. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 24 cmt. b.

The first-sale doctrine does not apply in the case at bar, however, because Cranmer is not using the TUMBLEBUS mark to resell a genuine good produced by Tumblebus Inc., but rather is using the mark to promote her own mobile-gymnastics service. Unlike goods, which can be sold and resold without change to their nature, quality, and genuineness, services such as gymnastics and fitness instruction inherently vary depending on who is providing such services. Even assuming Cranmer and Tumblebus Inc. use identical retrofitted school buses when providing their gymnastics and fitness-instruction services, other factors, such as the quality of instructors and lesson plans, necessarily distinguish the services provided by the two companies, such that the public could be confused as to what qualities the TUMBLEBUS mark embodies. *See PACCAR,* 319 F.3d at 257 ("The first sale doctrine offers no defense when the reseller used the trademark in a manner likely to cause the public to believe the reseller was part of the producer's authorized sales force or one of its franchisees.") (internal quotation marks and citation omitted); *H.L. Hayden Co. of New York, Inc. v. Siemens Med. Sys., Inc.,* 879 F.2d 1005, 1023-24 (2d Cir. 1989) (allowing first-sale defense in trademark infringement suit on the basis that customers knew that purchases from the defendant included the product only and not its installation, which plaintiff's authorized distributors provided). Thus, Cranmer's assertion of the first-sale defense does not render it unlikely that Tumblebus Inc. will prevail on the merits of its mark infringement claim.

c. Unenforceability Of Contractual Territory Restrictions

Cranmer next contends that Tumblebus Inc. is unlikely to succeed on the merits of its claims because the purported oral territory restriction entered into by Pate and Tumblebus Inc. is unenforceable under antitrust laws and the statute-of-frauds provision in the Kentucky Business Opportunities Act, Ky.Rev.Stat. § 307.801 *et seq.* Such an argument is misplaced, however, because Tumblebus Inc.'s ability to recover against Cranmer for mark infringement does not depend on the existence of a valid and enforceable territory restriction in Tumblebus Inc.'s sales contract with Pate.

d. Accord And Satisfaction

Finally, we reject Cranmer's contention that Tumblebus Inc. is not likely to succeed on the merits of its claims because the affirmative defense of accord and satisfaction shields Cranmer from liability. *See Bowater North Am. Corp. v. Murray Mach., Inc.*, 773 F.2d 71, 75 (6th Cir. 1985) ("An accord and satisfaction is a method of discharging a contract or settling a cause of action arising either from contract or tort by substituting for such contract or cause of action an agreement for the satisfaction thereof and the execution of such substituted agreement."). We question whether the parties reached a meeting of the minds such that an accord was entered, for Cranmer seems to assert that her obligation was simply to add another word in addition to "Tumblebus" in her business's name, whereas Scharlow claims that she requested that Cranmer change her business's name such that it would be distinct from that of Tumblebus Inc. Even if Tumblebus Inc. and Cranmer did reach an accord, such an agreement does not seem

to furnish a defense in this case because the rights and obligations asserted under the alleged accord would simply mirror those asserted by Tumblebus Inc. in its mark infringement suit. Thus, Cranmer's assertion of an accord-and-satisfaction defense does not make it unlikely that Tumblebus Inc. will succeed on the merits of its mark infringement claim.

C. Trade-Dress Infringement

In addition to enjoining Cranmer's use of the TUMBLEBUS mark, the district court's preliminary injunction order also provides that Cranmer is prohibited from "using the vehicle color markings and color scheme of plaintiff (*i.e.*, the 'TUMBLEBUS trade dress') on any vehicle used for Ms. Cranmer's mobile gymnastics business" and that Cranmer must "remove indicia of the TUMBLEBUS trade dress from her bus" when it is operated in the greater Louisville area. J.A. at 603-04 (D. Ct. Preliminary Injunction Order at 2-3). Cranmer asserts that this portion of the district court's preliminary injunction cannot stand because the district court failed to make the requisite findings on the record necessary to sustain such an order. We agree.

While a district court may, in appropriate cases, preliminarily enjoin the use of a particular trade dress pending adjudication of a trade-dress-infringement claim, we cannot affirm the entry of such an order unless the injunction "set[s] forth the reasons for its issuance," is "specific in terms," and "describe[s] in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained." FED. R. CIV. P.

65(d); *see Allard Enters., Inc. v. Advanced Programming Res., Inc.*, 146 F.3d 350, 360 (6th Cir. 1998).

To recover for trade-dress infringement under § 43(a) of the Lanham Act, a party must first identify what particular elements or attributes comprise the protectable trade dress. *See Abercrombie & Fitch Stores, Inc. v. Am. Eagle Outfitters, Inc.*, 280 F.3d 619, 634 (6th Cir. 2002) ("[I]t will not do to solely identify in litigation a combination as 'the trade dress.' Rather, the discrete elements which make up that combination should be separated out and identified in a list.") (internal quotation marks and citation omitted). Then, the party must show by a preponderance of the evidence that its trade dress is distinctive in the marketplace, that its trade dress is primarily nonfunctional, and that the defendant's trade dress is confusingly similar to the party's protected trade dress. *Id.* at 629. In the case at bar, the district court failed to make any findings on the record as to what particular aspects of Tumblebus Inc.'s vehicular design qualify as distinctive trade dress that is primarily nonfunctional and confusingly similar to Cranmer's vehicular design, thus hampering our ability to review whether Tumblebus Inc. is likely to succeed on the merits of its trade-dress infringement claim and what particular trade-dress usage should be enjoined. Thus, we vacate the district court's preliminary injunction order to the extent that it relates to the issue of trade dress and remand to the district court for further factfinding on the record as to whether Tumblebus Inc. is likely to succeed on the merits of its trade-dress-infringement claim.

III. CONCLUSION

For the reasons set forth above, we **AFFIRM** the district court's preliminary injunction order as it relates to Cranmer's use of the TUMBLEBUS mark, we **VACATE** the district court's preliminary injunction order as it relates to Cranmer's use of the TUMBLEBUS trade dress, and we **REMAND** for further proceedings consistent with this opinion.

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

No. 04-5060

TUMBLEBUS INC.,
Plaintiff-Appellee,

v.

MEREDITH CRANMER, d/b/a Tumblebus of Louisville,
Defendant-Appellant.

Before: MOORE and CLAY, Circuit Judges; HAYNES, District Judge.

JUDGMENT

On Appeal from the United States District Court
for the Western District of Kentucky at Louisville.

THIS CAUSE was heard on the record from the district court and was argued by counsel.

IN CONSIDERATION WHEREOF, it is ORDERED that the judgment of the district court is AFFIRMED IN PART and VACATED IN PART, and the case is REMANDED for further proceedings consistent with the opinion of this court.

ENTERED BY ORDER OF THE COURT

/s/ Leonard Green
Leonard Green, Clerk

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE

TUMBLEBUS INCORPORATED PLAINTIFF

v. CIVIL ACTION NO. 3:03CV-466-S

MEREDITH CRANMER DEFENDANT

PRELIMINARY INJUNCTION ORDER

Based on the findings of fact and conclusions of law dictated into the record on December 22, 2003, and the court having reviewed the record and considering the briefs and arguments of the parties, and being sufficiently advised, **IT IS ORDERED AND ADJUDGED**:

1. That the motion of the plaintiff Tumblebus Incorporated ("plaintiff"), for preliminary injunction be, and it is hereby **SUSTAINED IN PART**;

2. That defendant, Meredith Cranmer ("Ms. Cranmer"), and all persons in active concert or participation with her within the meaning of FED.R.CIV.P. 65 be, and she is hereby and they are hereby preliminarily enjoined, *pendente lite* and until further order of the court, within Jefferson County, Kentucky and Clark and Floyd Counties, Indiana (the protected area) from:

(a) using the mark TUMBLEBUS or any formative confusingly similar thereto as any part of the name of her business, and within seven (7) day of the effective date of this order Ms. Cranmer shall remove all indicia of TUMBLEBUS from her business when such business is operated within Jefferson County, Kentucky or Clark or Floyd County, Indiana;

(b) using the mark TUMBLEBUS or any formative confusingly similar thereto as a mark on any vehicle used to provide or promote mobile gymnastic services, or in any advertisement or promotion for same, and within seven (7) days of the effective date of this order Ms. Cranmer shall remove or obscure all indicia of TUMBLEBUS from her bus when such bus is operated within Jefferson County, Kentucky or Clark or Floyd County, Indiana, and permit plaintiff and its counsel to view such removal/obscuring;

(c) using the mark TUMBLEBUS or any formative confusingly similar thereto in any and all advertising, signs, printed or online materials, including but not limited to Ms. Cranmer's future listings of her mobile gymnastics business in the Louisville or southern Indiana white pages and yellow pages, unless such use is specifically identified as operating outside the protected area (*e.g.*, Tumblebus of Bullitt County);

(d) engaging in any conduct or placing or having placed any advertising (whether through signs, billboards, brochures or other printed sources, telephone, yellow or white telephone listings, mailings, television, radio, online, or other media), or operating or doing business in any manner, that might tend to give the general public the impression that Ms. Cranmer's business mobile gymnastics business is in any way connected with plaintiff or any of its products or services, or that Ms. Cranmer is authorized to use the TUMBLEBUS mark; and

(e) using the vehicle color markings and color scheme of plaintiff (*i.e.*, the "TUMBLEBUS trade dress") on any vehicle used for Ms. Cranmer's mobile gymnastics business, and within seven (7)

days of the effective date of this order Ms. Cranmer shall remove indicia of the TUMBLEBUS trade dress from her bus when such bus is operated within Jefferson County, Kentucky or Clark or Floyd County, Indiana and permit the altered bus appearance to be viewed by plaintiff and its counsel;

3. That Ms. Cranmer shall have her telephone provider disconnect any service to the number advertised in Louisville telephone directories as "Tumblebus Louisville," specifically, number 744-1436.

4. That if an inquiry is received by Ms. Cranmer (or others acting on her behalf or in her stead) by means other than a phone call inquiring about mobile gymnastics services under the name TUMBLEBUS within Jefferson County, Kentucky or Clark or Floyd County, Indiana, Ms. Cranmer and all persons in active concert or participating with her within the meaning of FED. R. CIV. P. 65 be, and she is hereby and they are preliminarily enjoined *pendente lite* to:

(a) inform such inquirers that she (Ms. Cranmer) is prohibited from providing mobile gymnastics services under the mark TUMBLEBUS within Jefferson County, Kentucky and Clark and Floyd counties, Indiana;

(b) to refer such inquirers to plaintiff's phone number (812-945-6866) without negative comment about or disparagement of plaintiff; and

(c) to keep a log of all such inquiries received by Ms. Cranmer (or those acting on her behalf or in her stead) by other than a telephone call, including the action taken in response to such phone calls,

and to make such log available upon request, but not more often than every ninety (90) days;

5. That Ms. Cranmer is enjoined and directed to send a notice to all her customers within Jefferson County, Kentucky and Clark and Floyd Counties, Indiana, with a copy to plaintiff's counsel, informing them that Ms. Cranmer is not able to do business as TUMBLEBUS within the protected area;

6. Within Jefferson County, Kentucky and Clark and Floyd Counties, Indiana, Ms. Cranmer shall be permitted to continue operating her mobile gymnastics business; provided however, within seven (7) days, Ms. Cranmer and anyone acting in active concert or participation with her shall cease using the word TUMBLEBUS or any formative containing the word "tumble" as any part of the name of her business publicized or otherwise advertised in any portion of those counties, and shall remove, or completely obscure from view the TUMBLEBUS name from her bus when such business is operated within Jefferson County, Kentucky or Clark or Floyd County, Indiana;

7. In relation to any business transacted in, or publicized in Jefferson County, Kentucky or Clark or Floyd County, Indiana, Ms. Cranmer shall not engage in any conduct calculated to cause any misimpression that Ms. Cranmer's business is in any way connected with plaintiff or any of its products or services;

8. That bond is hereby set at $25,000.00, and this preliminary injunction will be effective when plaintiff posts and the court approves a form of preliminary injunction bond in such amount, with adequate surety, tendered by plaintiff.

This 16th day of January, 2004.

/s/ Charles R. Simpson III
CHARLES R. SIMPSON III, JUDGE
UNITED STATES DISTRICT COURT

cc: Counsel of Record

ENTERED

JAN 16 2004

JEFFREY A. APPERSON, CLERK
BY /s/ [Illegible]
DEPUTY CLERK

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
LOUISVILLE DIVISION

TUMBLEBUS INCORPORATED	)	Case No. 3:03-CV-466-CRS
Plaintiff,	)	
VS.	)	
MEREDITH CRANMER dba TUMBLEBUS OF LOUISVILLE	)	
Defendant.	)	DECEMBER 22, 2003

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VOLUME II OF II
TRANSCRIPT OF PRELIMINARY
INJUNCTION HEARING
BEFORE CHARLES R. SIMPSON, III
UNITED STATES DISTRICT JUDGE

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* * *

[132] THE COURT: All right. Thank you I'll take a short break here.

(A brief recess was then taken.)

THE COURT: All right. Counsel, I want to thank you for your excellent presentations. I previously indicated to you that I did not accept the argument that

this mark was generic. It is not simply descriptive. I think it is artful and, well, that's probably not a good word to use, but it is certainly not completely descriptive as has been accepted for a generic mark. I think it's unique and the fact that there is tumbling as part of this program inside a school bus that has been renovated, is not necessarily the mark that is obviously being claimed here.

The mark is Tumblebus, not tumbling as part of a gymnastic program inside a renovated school bus. If that was the mark that was claimed, there would be something to the generic argument, but I have told you that I do not find that this mark is generic and therefore, we'll adhere to that.

We do have a mark that is not registered, but therefore, there is no presumption of validity, but I will find that the mark has been an in actual use by the Plaintiff [133] exclusively for many years and I think that that Counsel's in favor of the Court finding that it is a valid mark.

There has been an objection noted with respect to delay as going to the element of irreparable harm. One of the factors that the Court must consider in deciding whether or not to grant relief. It appears to the Court that there has been some period of time that has expired here, some eighteen months, but it also appears to the Court from the evidence in front of me that there were efforts by the owners of the mark to utilize non-litigation avenues to try and resolve this dispute. And it was only in the summer of 2003 that it became clear to Mrs. Sharlow that she was going to get no relief in the form that she would like to have had it from Mrs. Cranmer. So I think that there has not been a showing here of delay such that the owner

cannot thereby show irreparable harm and/or that the Court could consider that by that account alone the matter – the mark has been abandoned here. The authorities for that include and I would say see the *Multon vs. Eagle-Picher Case* at 55 F.3d 1172, which did recognize delays not in bar to injunctive relief where Plaintiff did not sit on rights, but attempted non-litigation avenues for resolution or settlement.

We have been urged to apply the so-called first sale argument. I don't think that's applicable under these circumstances here. This is not a kin [sic] to placing a product [134] on the shelf and holding it out for resale. As a matter of fact, this sale here included both the bus and the business opportunities. The concern here in this case is genuineness and representation or misrepresentation of the genuineness of the services. Under those circumstances I think that the case of *Minarik, M-I-N-A-R-I-K, Electric Company vs. Electro Sales* from the District of Massachusetts is nonbinding but certainly instructive and interesting as applicable to that situation that's present here, as well. That's at 223 F.Supp.2d 334 from the District of Massachusetts. So I don't think that this is a first sale situation.

Similarly, the Defendant has indicated that the Plaintiff's case is infirm because of lack of an agreement in writing under the Kentucky Business Opportunity Sale Act and I find that argument unavailing as well and would observe that it does not appear that the Plaintiff in this case is trying to enforce the sale of the business opportunity which might require if that were between the people that were selling and buying it here and that is that it would be required to be in writing. But the enforcement of the sale is not the issue in this matter.

What we have here is, I think, a unique business that Ms. Sharlow apparently thought about and dreamed up after visiting a trade show in California to have a moveable yet inside opportunity for children to engage in gymnastics, [135] a portable gymnastics room and a room that could be used for tumbling and other similar gymnastic activity and that this would be something that could be utilized by day-care centers in order to minimize their investment in the equipment and space necessary for such activities, especially since such activities may occupy only a small portion of the day and that this could be moved around in various day-care centers and also provide an opportunity for private engagement such as birthday parties.

I think it's a unique concept and it – the business that she set up has been running here is I think not counselling [sic] the finding that this is a weak mark here. So I don't think that this can be characterized, as I've been urged to do so in the words of Judge Allen, as a weak mark. I don't think it is. The Court must consider likelihood of success on the merits, the element of irreparable harm, the balancing of harms as between the parties here and the public interest in deciding whether or not to grant injunctive relief.

We are urged in this case that by selling buses all over the country with seemingly little strings attached in most instances that this is a naked license or some type of mass sale in which the Court should view this mark as abandoned. And other than in Jefferson County, Kentucky, there is some validity to that argument, but the Court [136] doesn't need to go there because the Court has before it significant evidence that the Plaintiff did not abandon the mark here in Louisville and in the Jefferson County

area or in the adjoining counties in southern Indiana across the river from Louisville.

The Plaintiff has operated here exclusively except for the events that we've heard evidence about here and there has been evidence both ways concerning whether or not there was any concern expressed by the Plaintiffs in selling the bus to Tara Pate, but I think, you know, in looking at the witnesses and judging their veracity and credibility, I am going to find that the weight of the evidence and the strength of the evidence counsels in favor of finding that the Plaintiffs did exercise some concern and restriction against operating a Tumblebus in this area in competition with themselves. Tara Pate testified that she asked what would happen if she came into Louisville after buying the bus, and that Mrs. Sharlow said, well, there was nothing she could do about it. That may have been a misguided guess as to what her legal remedies were if it is a truthful statement and there certainly is some question in the Court's mind as to whether the Sharlows did actually have a full appreciation of what rights they may have possessed here and whether or not they properly or should have taken other steps to foreclose this type of litigation.

[137] As Mr. Sharlow said, the sale to Ms. Pate was a big mistake and apparently attempting to or intending to put some strings on it in writing, as had been done with the two people that purchased in Lexington, but it simply didn't get done Ms. Sharlow says because she was very busy with business and children, all of which is interesting but unfortunately not of particular valid legal excuse.

But the plain fact is that I believe from the evidence here that the mark was not abandoned here in Jefferson County, that they – Ms. Pate testified in various forms, but

I think that taken as a whole it is clear to the Court that she conveyed, intended, and basically purchased a bus for the purpose of operating it outside of Louisville. And that the Plaintiffs did not sell her the bus for purposes of operating in this area and, in fact, sold it for her intended purpose which is to operate outside of Louisville and apparently they were comfortable with that. And it was only after that Ms. Pate reneged on that and started operating in southern Indiana and in Louisville that the genesis of this controversy began.

Also, we have the testimony of the Defendant in this case, Ms. Cranmer, who basically had to fake where she wanted to operate her bus in order to get a price from the Plaintiffs by misrepresenting that she was really thinking about operating it in Bloomington, Indiana, because she [138] couldn't get a price and she was going to operate it here in Louisville. All of that counsels in favor of finding that the Plaintiffs did protect and intend to protect their mark and certainly didn't abandon it.

There is authority for the proposition that a mark may not be abandoned in some areas while it may be considered abandoned in other areas and, of course, the Pritchard Case which parties have cited, *E.F. Pritchard Company vs. Consumers Brewing Company*, as, one, an old case, but is in that vein as well as, of course, the Sheila's Shine products case from the Fifth Circuit, which also stands for that proposition.

It is contended that the Fifth Circuit has abandoned that case, but I don't find that the Fifth Circuit in the Exxon opinion overruled Sheila's Shine Case. I would also point out a couple of other indications that stand for the proposition that this – that abandonment may be in some

areas and not in others; namely, the case of the *Indianapolis Colts, Inc., vs. Metropolitan Baltimore Football Club Limited Partnership*, at 34 F.3d 410, a 1994 case from the Seventh Circuit. And an additional case from the Federal Circuit from 1984 which interesting enough has some identity of concern with telephone book listings, *Bandag, Inc., vs. Al Bolser's Tire Stores, Inc.*, which is located at 750 F.2d 903.

I would also refer to the restatement third of [139] unfair competition Section 33(B), which states if substantial uncontrolled use is confined to a particular geographic or product mark, the courts can conclude the mark has been abandoned only in that geographic area or in connection with use on that product. The trademark owner then retains its priority in the use of the mark in other areas or in other products. The burden, of course – I'm adding the word "of course" – of proving the fact and extent of controlled use by licensees is on the person alleging abandonment.

But the Court is convinced here that I need not go into whether or not this Plaintiff has abandoned this mark in Utah or in Maryland or the east coast or the west coast or in between because the concern here is a particularized area in which the Court finds that there is no evidence of abandonment and, in fact, evidence that the Plaintiff attempted to protect the mark by restricting the sale of buses which might compete with their own, to people who operate outside these areas and that area, of course, is Louisville and Jefferson County, Kentucky and the New Albany, Jeffersonville and Clarksville areas and counties directly across the river from Louisville. So I think that within this area of the mark is not abandoned and it is protectable.

Now, what we have here is a question of genuineness and confusion and whether or not there is confusion to the general public, and I think that there is strong evidence of [140] a likelihood of confusion and, in fact, we have numerous instances in which there is actual evidence of actual confusion by the public and these are stated in the interrogatories and in the situation in which the Christian School mistakenly paid the Plaintiff intending to pay the Defendant for an appearance by the bus at their location. This shows that the public is confused here as to who is what.

And, of course, the original long time originator and owner of this protect and mark is the Plaintiffs. So I think that there is a strong likelihood here of success on the merits with this protectable mark and I think that is irreparable harm to the business of the Plaintiff in which she has a substantial history of operations. There is evidence of actual harm in a decrease in business. There is actual confusion as well as a strong likelihood of substantial future confusion unless injunctive relief is ordered and whether there is actual confusion, the matter of irreparable harm is a lot easier to resolve in favor of the movant. I would site tore [sic] that *Winn Oil Company vs. American Way* at 943 F.2d 595 at page 608. That's a Sixth Circuit case, as well.

I think that the interest of the public here counsels in favor of injunctive relief because of this confusion and because the public is not able to discern who [141] the original – actual original owner is of the mark and who is the original operator of Tumblebus, and the public interest would be served by minimizing or eliminating such confusion.

So these elements I think council [sic] strongly in favor of the issuance of injunctive relief. Now, it is contended that there was an accord and satisfaction because it is contended here that the Defendant was implored by the Plaintiff to just insert a word and she inserted Louisville and therefore did what was requested. That's clever and too clever. It doesn't address the Plaintiff's concerns. It is simply showing where the Defendant proposes to operate, which is in an area that has been protected and not abandoned by this owner of the mark and, in fact, doesn't differentiate between the Plaintiff and the Defendant's business and, in fact, has engendered the confusion to some extent here as to who was operating where. So I'm going to reject the accord and satisfaction defense here as providing relief for the Plaintiff.

So in reviewing the standards that the Court is required to consider likelihood of success on the merits, irreparable harm, the balancing of harms here, the Plaintiff does not aim to shut the Defendant down, but simply eliminate the confusion and the overlap in conducting her business under the guise of Tumblebus, which is the mark owned by the [142] Plaintiffs. So, of course, she contends that her business is doing well, but I think as between the owner of the innerowner here, the owner's interests ought to be balanced more heavily especially when the Plaintiff is not asking that the Defendant be shut down altogether, but change the form and name under which she is doing business or the place in which she is doing business.

And with respect to the public, I think the public interest would be served hereby eliminating a confusion as to this mark and who is the proper owner and user of it and the originator of the business. So because of that and

those would be the Court's findings. I think that the Court is inclined to grant injunctive relief here.

Now, the question is presented as to what injunctive relief the Court would be inclined to enter here. Well, the crux of this case is confusion and the Court has found that within this particular geographic area the mark is valid, enforceable and not abandoned. So the relief that the Plaintiff has requested seems to some extent go overboard on this. I believe that we have two choices here. We can enjoin this Defendant from operating this business in the protected area, or we can enjoin her from operating in the manner within the protected area that would be confusing and put into question the genuineness of the Plaintiff's mark.

So the question here is really what to do here. [143] All of the above or some of the above. I don't know what the Plaintiff would prefer to do whether the Defendant would prefer – I don't know what the Defendant would be willing to do. Mr. Higgins has suggested and asked that I tell her to change the name on her bus and all that sort of thing, which might be appropriate if she intends to operate here in the Louisville, Jefferson County, New Albany, Clarksville and the Jeffersonville areas and southern Indiana.

On the other hand, if she intends to operate outside those areas, then there is no necessity of changing that. So the Court faces a conundrum and requires counsel to advise and perhaps that requires some consultation with clients and maybe some meeting between counsel and the parties if necessary, but certainly between counsel without waiving any objection or claim of error to the Court's rulings here, to determine which direction this injunctive

relief ought to take. Whether it ought tc eliminate her operating in this area in a manner that is going to confuse the consumer into knowing whether or not she is, in fact, Tumblebus; that is, the Plaintiff, or whether she is something else; that is, you know, offering similar services. Or whether she would prefer to remain Tumblebus, but simply not accept business and have business in these protected areas.

And then we get into the business about the phone [144] number and how to handle that. It may be that this intercept that was suggested would be an appropriate way to differentiate it since its in the phone book. My concern is that the phone book arguably covers areas that are outside Jefferson County, so if the Defendant wishes to operate a Tumblebus outside of Jefferson County, we would have a problem with a wholesale deeding of the right to this phone number to the Plaintiff.

On the other hand, if she wants to operate here under a different name, then that might not be inappropriate. So I don't know what direction you all want to take. What I'm going to do is give you a period of time to get together and figure this out.

Now, regarding a bond on this, I'm thinking that a bond in the area of $25,000 would be appropriate to bond the costs potential damages if the Court has improperly granted relief. So the Court's ruling is going to be that I am going to grant injunctive relief to protect the Plaintiff's mark inside this area in which I find no abandonment. Jefferson County, Louisville, New Albany, Jeffersonville, Clarksville, but not outside those areas. Now, I don't know what the counties are over there because I've lived here.

MR. WHEAT: Floyd and Clark, Floyd County, New Albany and Clark county, be Jeffersonville and Clarksville.

THE COURT: Well, I stand advised by learned [145] counsel who has got better hold on the map than I do after living most of my life here, but it makes sense to me. Those sound like the counties that we're talking about here. But not enjoin her use of the name Tumblebus outside these areas. So what direction it takes, I would like counsel to meet and confer and then if you can't figure it out, then I'll go ahead and do an order along the lines that I mentioned. But it may be that you can narrow this a little bit when this party Defendant here figures out where she want to go from this point on. And any agreement on language would be without waiving any right to take up or contest or revisit in this court or a higher court the issues that I ruled on.

Now, that said we're sitting here on what is this, the 22nd of December and how much time do you all need to do this? I can tell you that there's going to be limited judicial power around here the next few days, so I'm thinking perhaps you may want to get together, tender something to the Court at a reasonable time after the Christmas weekend or perhaps after the first of the year. I'm thinking that there is no probably to real harm in this because there's going to be limited amount of this kind of stuff going on with this being holiday and, frankly, you brought this case to the Court at a time when you're going to find the Supreme Court is closed, and so – and when they close, why, we just have to go along with it. So anyhow, what about that next week [146] some time or right after the first of the year? Would that give you time to try to work this out a little bit?

MR. HIGGINS: Your Honor, I think the Plaintiff would be ready to submit something early next week, which would be after the Christmas holiday. A week from today would be the 29th. I don't know if the Court is going to be available during that period of time.

THE COURT: I think that there is probably very good chance that the Court will not be available then.

MR. HIGGINS: Very well.

THE COURT: If you submit something that's by agreement, I may be able to go ahead and get it entered and, you know, if you need the injunctive relief, how soon will, you know, are you going to be able to get together in the next couple days?

MR. HIGGINS: I'm certainly available.

THE COURT: Well, I know you've already been to Florida, but other people haven't, so . . .

MR. WHEAT: I have family arriving tomorrow for the holidays.

THE COURT: That's a common problem. So let's say that you submit something no later than January 5. How would that be? That would be that Monday. Isn't that the Monday following?

MR. HIGGINS: Yes, Your Honor, that's correct. [147] January 5 is acceptable to the Plaintiffs.

THE COURT: You think you can do that or advise the Court that you're unable to reach an agreement. But if you know the direction I'm taking, I think you might be able to work something out. Knowing counsel here, I think you probably can.

MR. WHEAT: So I understand, you want us to try to agree on the language?

THE COURT: I want to know what Ms. Cranmer wants to do. If she wants to continue to operate as Tumblebus outside this area, in which case I will enjoin her only from operating outside this area, or does she want to operate in this area under another name at least until you can get an appeals court to tell me that I am completely wrong in this ruling. Otherwise, you know, otherwise, I have kind of an awkward order that I would have to order enjoining her from this and this, not from that, and phone calls from here but not there and this, that, and the other thing. I don't know. So she can put her pencil to paper and figure out what her business plan is in the interim. The big message here is that I will protect and enjoin a confusion of this mark in those areas that I announced.

MR. WHEAT: Understood. My question was you want counsel to get together and see if we can work this out?

THE COURT: Yeah.

[148] MR. WHEAT: If not, you want a report or separate filings from us or?

THE COURT: Yeah, I guess so.

MR. WHEAT: That's the question.

THE COURT: Yeah. Yeah. I mean, I've already told you what I'm inclined to do and it seems to me that we need to have some – just some notification as to what – because you see what I'm saying here? What Mr. Higgins has requested would be great and accomplish the job, but

it might be over broad because it might extend beyond the area that I think I'm willing to protect and enjoin confusion with this mark. So I see no reason to maybe have her repaint the bus or that sort of thing if she conceded or until otherwise ordered by another court or this court to – see what I'm saying here? Without waiving her view that the Court has erred in this ruling.

So I need to know how far to go here because I think what Mr. Higgins requested would possibly go further than what I think I am willing to enjoin at this point. I'm willing to bring the injunction to the county line of Jefferson but not into Bullitt or Oldham or Spencer or Meade or Hardin or Breckenridge or wherever outside Jefferson County, Kentucky. So there's no point in entering this broad area here if she can and wants to operate in those areas and maybe is operating to some extent in those areas now.

[149] MR. HIGGINS: Your Honor, the injunction territory that you just expressed is satisfactory to the Plaintiff; that is, take the injunction to the Jefferson County line as well as Clark and Floyd.

THE COURT: Well, I know that, but what I'm saying is that this Defendant may wish to continue to operate here in which case we would need to then address the name on the bus and the activities within Jefferson County and whether or not it needs to be repainted. If it's not going to do any business in Jefferson County, there's no point in repainting the bus or repainting the name on the bus or the color line or something like that. So that's why I want you all to get together.

MR. HIGGINS: All right. Very well, Your Honor. We will get together.

THE COURT: So you have the Court's ruling at this point and I thank counsel for lucid explanations here which we don't always get in this court of your legal positions, and I think best thing to do now, unless there's anything further, is to go ahead and adjourn and let you see if you can give me some direction based on what I've told you I'm inclined to do here, okay.

MR. HIGGINS: The one point at which I would request some clarification from the Court has to do with the trade dress, if you will, of the bus. Taking the word [150] Tumblebus off the bus does not reduce all confusion because the bus is still recognizable as Tumblebus even without the word.

THE COURT: Well, there may be some way to tweak it a little bit. I don't know that it necessarily all needs to be repainted, but color bar needs to be changed or something like that. I'm not saying you have to repaint the whole bus. These are some details that I you might be able to work out. I'll be looking for something reasonable. I'm not looking to repaint the whole bus. If we can take the name off of it and tweak a color just along the line in there, so that it would not be operating with the same colors as the Plaintiff exactly, then I think that would probably remove the confusion.

However, the major source of the confusion is the name here because when people see a bus going down the street, I don't think that they're going to hale the bus and order a birthday party from the bus driver. Mostly there is coming in other areas, but I'm appreciating the trade address and I'm thinking if there's some way to tweak it, so it's not the same, then I think that would be satisfactory. I'm trying to avoid confusion to the consumer here. So

if the name is taken off or changed in some way, color bar is changed or a couple of colors or something like that, then it might obviate a necessity of repainting the entire bus.

[151] MR. HIGGINS: I've just been handed a note from Ms. Sharlow who said she would paint Ms. Cranmer's bus for her for free and that removes a lot of issues, so, but we do understand the Court's guidance and we thank you very much.

THE COURT: All right. Anything further, Mr. Wheat?

MR. WHEAT: No, Your Honor.

THE COURT: All right. Thank you, counsel.

THE PROCEEDINGS WERE THEN CONCLUDED

CERTIFICATE

I CERTIFY THAT THE FOREGOING IS A CORRECT TRANSCRIPT FROM THE RECORD OF PROCEEDINGS IN THE ABOVE-ENTITLED MATTER.

/s/ Carola G. Strijek 1-23-04
CAROLA G. STRIJEK, RPR DATE
Official Court Reporter

No. 04-5060

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

TUMBLEBUS INCORPORATED, Plaintiff-Appellee, v. MEREDITH CRANMER, DOING BUSINESS AS TUMBLEBUS OF LOUISVILLE, Defendant-Appellant.	)	ORDER (Filed Mar. 15, 2005)

BEFORE: MOORE and CLAY, Circuit Judges; and HAYNES,* District Judge.

The court having received a petition for rehearing en banc, and the petition having been circulated not only to the original panel members but also to all other active judges of this court, and no judge of this court having requested a vote on the suggestion for rehearing en banc, the petition for rehearing has been referred to the original panel.

The panel has further reviewed the petition for rehearing and concludes that the issues raised in the petition were

* Hon. William J. Haynes, Jr., United States District Judge for the Middle District of Tennessee, sitting by designation.

fully considered upon the original submission and decision of the case. Accordingly, the petition is denied.

ENTERED BY ORDER OF THE COURT

/s/ Leonard Green
Leonard Green, Clerk

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
LOUISVILLE DIVISION

TUMBLEBUS INCORPORATED	)	Case No.
Plaintiff,	)	3:03-CV-466-CRS
VS.	)	
MEREDITH CRANMER dba TUMBLEBUS OF LOUISVILLE	)	
Defendant.	)	DECEMBER 10, 2003

* *

VOLUME I OF II
TRANSCRIPT OF PRELIMINARY
INJUNCTION HEARING
BEFORE CHARLES R. SIMPSON, III
UNITED STATES DISTRICT JUDGE

* *

* * *

[53] Q. Did the agreement to sell a bus between Tumblebus Incorporated and Tara Pate include an express reservation of territory?

MR. WHEAT: Your Honor, we're going to have to object to the relevance of this question unless he's limiting it to written contracts since the provision of this sort is governed by statute of frauds that requires that the terms of the agreement be in writing.

THE COURT: I understand that's your argument, but I don't think the evidence is inadmissible because that's your argument. Go ahead.

MR. HIGGINS: Do you understand the question?

THE WITNESS: No.

Q. In the agreement – strike that. In the written agreement between you and Ms. Pate for her purchase of a Tumblebus vehicle from your company, was there a territorial restriction contained in that document?

A. Tara Pate and I had an oral agreement. Then she got a written agreement from us on the mechanical point, the one we always do. And as you know from that post-it, we had every intention of doing a written territorial agreement just like we did with Janet Hardin and Brenda Zinner and we messed up. We didn't do it.

* * *

[78] Q. Perhaps I'm not being clear, Ms. Sharlow. The question is do you have any right, any agreement where you can tell them how to run their business?

[79] A. I do not have a written agreement with any of them in that way.

Q. Do you have an oral agreement that gives you right to control how your 238 purchasers operate their businesses?

A. Say that again, please.

Q. Do you have an agreement with these 238 – the people who bought the 238 buses, that gives you the right to tell them how to deliver the Tumblebus services?

A. I guess legally that I am not controlling them in the way that you're talking about, but you're looking at it the wrong way because the people that buy the buses want

my input. They want the new lesson plans. It's not a matter of – it's not the way that you're saying it.

Q. Do you have any agreement giving you the right to tell people how to render the Tumblebus services?

A. When they come out for training, I explain – they want to know how to run the business and I spend a day and a half explaining that to them. They call me repeatedly and ask my advice on things.

Q. All 238?

A. At different times, yes, over the years.

Q. Your testimony is after a purchase has been made, every single purchaser has called you for advice on how to operate their business; is that your testimony?

A. I cannot truthfully say that all 238 have called, but, [80] yes, the majority of them have called me for advice.

Q. And are they required to take your advice?

A. No, but they want to.

Q. All 238?

A. Why would they call?

Q. Well, did they disagree with your advice?

A. I don't know.

Q. You provide in the training program 98 lesson plans; is that correct?

A. Originally it was 98. I think we've added some since then, so we probably have to count them to be for sure.

Q. Are they required to follow any of those 98 plus lesson plans?

A. They are. That's the lesson plans for Tumblebus. See, you're trying to get me to say something that they are required to do. I twist their arm to. I send somebody there to make sure that they do. No, I don't.

Q. Do you have the right to do that? Do you have any agreement that gives you that authority over those buses?

A. Do I legally have that authority? I don't know if I legally do or not. Probably not, but the people come to me for me to tell them how to run the program, how to do the lesson plans and they want my advice. So it's not a matter of me trying to put something on them, that they don't want.

* * *

[82] Q. Okay. And you provide training. Is that before or just after the bus is purchased?

A. Before.

Q. What right do you have after the purchase, after the training, to control the services rendered by any of the 200 plus purchasers of your Tumblebuses?

A. I don't know about legally, but I know that I meet with these people for a day and a half and I get to know these people and we do reach an agreement. They look at me as the head of Tumblebus. We have an agreement they're getting to use the Tumblebus name and for using

that name, they stay in touch with me, they get lesson plans sent to them, I mean, we have an agreement.

Q. Do you monitor what they do?

A. I don't visit their site. I could have franchised, had I visited all the sites.

Q. Why did you not want to do franchising?

[83] A. Well, I would have made a lot more money. Probably wouldn't have been sitting here today, but I had eight children, six of them under the age of eight. When I went to Francorp in Chicago, and my husband and I looked into it and made the decision that we would not – I could not visit all the sites. That's why.

Q. You did not want to have the hands-on responsibility after the sale; is that correct?

A. No, I have responsibility after the sale, but I didn't want to visit each site because that would take way too much time. The whole point of Tumblebus is so I could stay home and run the business and take care of my kids and not put them in day-care.

Q. Do you do anything to monitor whether any of your purchasers do anything that is specified in your training manual?

A. I really don't have to because state licensing would take care of that part of it and to be a member of U.S.A. Gymnastics and everything, they would take care of the other part of it. So for me to, you know, it's kind of out of my hands.

Q. Maybe you didn't understand the question. Do you monitor, do anything to monitor?

A. What does monitor mean?

Q. Do you send regional supervisors to check on people?

[84] A. No.

Q. Do you –

A. That would be franchising, I thought.

Q. Do you require these purchasers to submit a periodic report on what they've been doing?

A. No.

Q. Do you go visit all of them?

A. Not all, no.

Q. Do you do anything to monitor whether any of the purchases have gotten any of the certifications you suggest they should look into?

A. I don't have to worry about that.

* * *

[87] A. No.

* * *

Q. Perhaps my question wasn't clear. Hot Fonts does stock advertising that various other purchasers use?

A. Yes.

Q. And you agree that anyone who purchases a bus from you can purchase that logo of the Tumblebus. Anyone who purchases a Tumblebus from you can call it a Tumblebus?

A. Yes.

Q. Anyone who purchases a Tumblebus from you can have Tumblebus in their company name?

A. Yes.

Q. Was Tara Pate allowed to use Tumblebus in her company name?

A. Yes, she was.

* * *

[89] Q. Ms. Sharlow, in discovery you may recall that the written request we sent to your counsel and presumably they met with you or spoke with you to culminate the information, we asked for any agreements you had with any of your purchasers regulating territory or quality control. Do you remember a request of that sort?

A. Yes.

Q. And in response you produced, I believe, five agreements; is that correct?

A. Well, I have agreements with every person that buys a bus from me, an oral agreement. But then it happens that some of the people on the east coast, they want it in written. They're a little less truthworthy, so the five we gave you were the five I had in writing.

Q. So you gave us every written agreement you have?

A. Yes.

Q. Relating to territory or quality control?

A. Not quality control, but territory.

Q. Yes, you didn't give us anything related to quality control, did you?

A. No, I guess I didn't.

* * *

[93] A. If they don't want the second bus – see, they can only service fifteen to twenty day-cares. If they don't want the second bus, then I would sell another bus in that area.

Q. And whoever you said sold it to could compete with the Ringlespaughs?

A. Well –

Q. The word Tumblebus Indianapolis, we'll give you a better deal than the Ringlespaugh Tumblebus will give you. It would be similar service?

A. Yeah, it could happen like that. I've never known it to happen like that because there are three right now. There are three different people in the Atlanta area that have Tumblebuses and they work together. They don't go to each other's day-cares. It isn't like that.

Q. Under this agreement the only way they can keep you from selling another one in Indianapolis is to agree to take it themself?

A. That's right.

* * *

[96] Q. Okay. Let's now go to Plaintiff's Exhibit 14. The fourth of the five agreements provided and this Brenda Zinner and Janet Hardin are in Louisville; is that correct?

A. Yes.

Q. And this agreement strikes me as a little more precise; is that correct?

A. Yes.

Q. This one says that they will operate Frankfort, Versailles, and Lexington, Kentucky areas only. The prior three, those weren't limits on what area those purchasers could operate in, were they? It was just their right to purchase another bus if you had someone else interested in their market; is that correct?

A. In their area, yes.

Q. And this one does specifically limit the purchaser to the specific area; is that correct?

A. Right. Because, see, I'm not really aware of other people's areas and here, you know, I know the surrounding [97] areas.

Q. And you specifically had Ms. Zinner and Hardin agree to stay out of Louisville?

A. Yes.

Q. And why was that?

A. Because I've been running the business myself in Louisville and it would be confusion like it is now.

Q. And you didn't want to compete with them?

A. No, I have no problems with competition. There's been two other buses in the Louisville area. I don't have a problem with competition. I have a problem with why

would I sell a bus to compete against myself that would be the same name that would result in confusion.

Q. You sure the reason wasn't to prevent competition?

A. If I said that in the deposition, then what I mean is I'm not afraid of competition, but I wouldn't want to sell a bus to somebody to compete directly with me. That doesn't even make sense.

Q. You did testify in your deposition that it was to avoid competition, didn't you?

A. I don't know. If that's what you say it reads there, I'm sure that's what I said.

Q. Do you want me to read it to you or do you remember testifying that it –

A. No, I really don't. remember.

[98] Q. Okay. It was page 97 of your deposition and we're talking about agreements to stay out of the – question – and to stay out of Jefferson County. Answer, "That's right."

"Q. And to stay out of southern Indiana?

"A. That's right.

"Q. And why was that?

"A. Because I had been operating in this area since 1987.

"Q. Because you didn't – " and then you interrupted me here and said, "I wouldn't sell a bus to compete against myself."

A. And I still mean that. I would not sell a bus to be in direct competition with myself. That's not saying I'm afraid of competition, that's saying that makes no sense.

Q. I didn't mean to infer that you were afraid of competition, but the purpose of this agreement was to –

A. Well, to avoid confusion, yeah, not to have Tumblebus compete against Tumblebus. That doesn't make any sense.

* * *

[99] Q. So the fifth of the five agreements you produced when we asked for any agreements you had with any of the 200 plus [100] purchasers, I believe is Exhibit 17; is that not correct? Is that correct?

A. Yes, I guess.

Q. Is this a territory agreement?

A. These people gave a deposit for a bus and they were planning on coming to go through the training and they wanted to make sure that if a call came in prior to their getting their bus and everything, until we got everything worked out, that I would call them if anyone called from Morris – whatever how you pronounce that one, Passaic, Essex and Geregen Counties.

Q. Which they referenced as a target area; is that correct?

A. They said that's their target area, yes.

Q. Would they have been allowed to expand outside of that area? Is there anything preventing that?

A. No, unless there's somebody else that's around.

Q. So these five documents are the only written agreements you've ever had with any of the 200 plus purchasers?

A. Yes.

Q. Relating to territory?

A. Yes.

Q. Other than Zinner and Hardin, that's the one that said you will only do it in that identified community. With the other four was there any restriction on those people expanding into other markets?

[101] A. No.

* * *

[114] Q. And they've covered this, but let's be clear. Your purchasers are allowed to use all of the Tumblebus marks and logos?

A. Yes.

Q. And they're allowed to use Tumblebus in their company name?

A. Yes.

Q. They're allowed to resell their buses to others?

A. Yes.

Q. They're allowed to move to a different market other than the one they're in?

A. Yes.

Q. They're not required to change the looks of bus at all?

A. No.

Q. They're allowed to use the stock advertising, pick a piece they like, and stick their phone number on it or their address?

A. Yes.

Q. You do offer a training program. What does that consist [115] of?

A. It's a day and a half training.

Q. What's that consist of?

A. We go through the operations manual, the training materials, they learn how to market to the day-cares, how to schedule their classes. I try to teach them all the things that I've done right and wrong in the business so they can be successful and run a good quality program.

Q. You have some of your purchasers that operate multiple buses?

A. Yes.

Q. Are they required to send all their people to training program?

A. No, because as long as a person from the company has been through the training, then they can train their own staff.

Q. Now, it's the same answer if someone sells their Tumblebus to someone else?

A. I don't know.

Q. You don't require that successor to come go through your training program, do you?

A. No, but I have had people that have bought a bus to come and go through the training.

Q. Do you have any basis for disputing that Tara Pate trained Meredith Cranmer?

A. I don't have any basis one way or the other, no.

[116] Q. Your training program consists of some handouts?

A. Correct. Well, it's a little more than handouts.

Q. I'm taking it a piece at a time, but there are some handouts, correct?

A. Yes.

Q. There's the lesson plans?

A. Yes.

Q. The training manual, that's already been introduced as an exhibit. The one that's an exhibit, do you know that's the one that Ms. Pate gave Ms. Cranmer?

A. Well, I would imagine, yes. I don't know how else she would get it if she hadn't gotten it –

Q. You get an operations manual?

A. Yes.

Q. And you don't have any reason to dispute that those were passed on?

A. No, I don't.

Q. What else does training consist of? Let's take it in pieces. There's the handouts?

A. Well, they spend a day and a half and I teach them how to market and schedule and – okay.

Q. And they go with you on a – to a site to visit and watch the class?

A. Right.

Q. And any basis to dispute that Tara Pate did that with Ms. [117] Cranmer?

A. No.

Q. Anything else in the training program?

A. There's more, but that's – we're fine. We're fine with she was trained by Tara Pate. Were fine with that.

Q. I believe we could go through these pretty quickly. I believe you testified that you don't do anything to monitor how the purchasers are running the business?

A. That's correct.

Q. You don't do anything to see if they've got any of the certifications that you would like them to have?

A. I don't have to worry about the certificates, but because the statement and U.S.A. Gymnastics will monitor those things.

Q. So the answer is, no, you don't do anything to monitor that?

A. Not personally.

Q. And you don't have any day-to-day supervision of the purchase?

A. No, I don't.

Q. You don't have any background checks about the purchasers?

A. No, they have to have the criminal check done by the state in order to go to the day-cares.

* * *

[131] Q. Ms. Sharlow, other than Ms. Cranmer having Tumblebus on the bus same way that was put on the bus by your company and other than her advertising as Tumblebus Louisville, are you aware of anything she's done to intentionally try to mislead [132] people into believing she's affiliated with you?

A. No, I don't think that she's intentionally trying to mislead people. I think that just that the name is Tumblebus and Tumblebus the people automatically are misled.

Q. But you're not aware of her saying that she works for you?

A. No, and I've never said that.

Q. Or that she's official, approved, or anything like that?

A. No.

* * *

[Testimony of Meredith Cranmer]

[161] A. Yes, she requested me to add a term and I did.

Q. Didn't she request you to add a term at the beginning of Tumblebus?

A. No, the examples that were given were Meredith's Tumblebus and Tumblebus Express.

* * *

[182] A. I thought that my bus that I was buying was the reason that – the reason it was saturated.

Q. Which bus?

A. Tara's Tumblebus.

Q. So when she said the market is saturated by others, you thought Tara is one of the ones she was referring to?

A. Yes.

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[Testimony of Tara Pate]

* * *

[6] Q. Was there any discussion you recall of relating to territory protection?

A. My mother did ask her, you know, if she can give a territory agreement. I don't know that really territory she wanted to make sure that Brenda would not sell another bus in that area and Brenda said, no, she wouldn't do that. She wouldn't give her anything written and at that point my mom asked her what happens if Tara leaves the area and what if she comes to Louisville? And she said and was pretty certain that her customers were very loyal and she didn't have to worry about me,

but there was nothing she could do. So originally I did plan to do business in E-town, but when we got there, there was nothing there.

* * *

[11] Q. Did you form a corporation to engage in this line of business?

A. Yes, I did.

Q. What was your corporate name?

A. T's Tumblebus. T apostrophe S.

Q. Was Ms. Sharlow aware that was your corporate name?

A. Absolutely. That was the first couple questions when we were there the first time that I could make sure that I could use that in my name and at that time she told me there was no reason to incorporate.

Q. And what we've been referring to is the logo, the animated bus with Tumblebus on the side of it. Any [12] discussions about whether you could use that?

A. No, it was said that I could – I mean, it was all in that and I could use anything that she had.

* * *

[21] Q. Were you aware of any restrictions on reselling the Tumblebus?

A. No.

Q. Did you agree to stay out of Louisville?

A. No.

Q. Did anyone ever request your agreement that you stay out of Louisville?

A. No.

Q. When the subject did come up, what was the discussion?

A. What do you mean? I'm sorry.

Q. The discussion with Ms. Sharlow about?

A. The very beginning before I purchased the bus, you mean?

Q. Yes.

A. That, you know, that if I came to Louisville, there was nothing she could do about it. She was very confident that I couldn't take her customers and she said they were very [22] loyal.

* * *

[Testimony of Meredith Cranmer]

[53] Q. When you were speaking with Tara before you decided to purchase her Tumblebus, where were you aware that she was operating her Tumblebus business?

A. I knew that she was in Louisville, southern Indiana, Mt. Washington, LaGrange, and Bardstown.

Q. And I believe you said after that you telephoned Tumblebus, incorporated?

A. Yes.

Q. For what purpose?

A. Because I wanted to do a price check. I had no idea what Tumblebusses would cost.

Q. Tara Pate had quoteed you a price?

A. Yes, and I just wanted to see what a brand new one would cost. Same thing I would do if I was buying a car.

Q. What do you recall that conversation, who was that conversation with?

A. It was with Brenda Sharlow.

Q. And what do you recall that conversation with Ms. Sharlow?

A. I left a message at Tumblebus, Incorporated. I received a phone call back at my home number. She noticed that I was calling from Louisville and she told me that, you know, Louisville was saturated because there were several Tumblebuses there and that, you know, would not serve a purpose, you know, to purchase one because there were so [54] many.

Q. Are you aware of who the operators were in Louisville?

A. No, I had no idea. I didn't ask.

Q. What about Ms. Pate?

A. Well, I knew Tara was there and that's the reason I was calling and just asked that, and I also asked about – I asked about Bloomington, Indiana just because I was trying to get a price. She still had not given me a price. That was the reason for the telephone call and to make

sure there were no – what I had read was true about the territories.

Q. And ultimately you decided to purchase Ms. Pate's business?

A. Yes.

* * *

[59] Q. Did you do anything to indicate that you're affiliated with Tumblebus, Incorporated?

A. Yes.

Q. Do you say you're the original Tumblebus, anything like that?

A. No.

Q. Do you make people believe you're part of their company?

A. No.

Q. Do you indicate you're employed by them?

A. No.

Q. Can you think of anything you do overtly?

A. No.

Q. To indicate you're part of that company?

* * *

[Closing Statements]

[124] THE COURT: Does that depend at all on whether I view this as a purchase of goods?

MR. WHEAT: No, if you're asking whether the exhaustion doctrine is limited to goods as opposed to services, actually the older cases are auto repair shops using the name, auto brand names to advertise that they do service for those products, and that's the genesis of the exhaustion rule is people using the mark of another to actually refer to genuine product. I believe that the famous case is the Volkswagon and someone had Volkswagon in their company name and they were repairing Volkswagons, not even [125] selling them, so it started in the service context.

THE COURT: Well, the restatement seems to make reference to goods or product.

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